

# PHA 5-Year and Annual Plan

U.S. Department of Housing and Urban Development  
Office of Public and Indian Housing

OMB No. 2577-0226  
Expires 8/30/2011

<b>1.0</b>	<b>PHA Information</b> PHA Name: <u>Northern Marianas Housing Corporation</u> PHA Code: <u>TQ901</u> PHA Type: <input type="checkbox"/> Small <input type="checkbox"/> High Performing <input type="checkbox"/> Standard <input checked="" type="checkbox"/> HCV (Section 8) PHA Fiscal Year Beginning: (MM/YYYY): <u>10/01/2011</u>					
<b>2.0</b>	<b>Inventory</b> (based on ACC units at time of FY beginning in 1.0 above) Number of PH units: _____ Number of HCV units: <u>363</u>					
<b>3.0</b>	<b>Submission Type</b> <input type="checkbox"/> 5-Year and Annual Plan <input checked="" type="checkbox"/> Annual Plan Only <input type="checkbox"/> 5-Year Plan Only					
<b>4.0</b>	<b>PHA Consortia</b> <input type="checkbox"/> PHA Consortia: (Check box if submitting a joint Plan and complete table below.)					
	Participating PHAs	PHA Code	Program(s) Included in the Consortia	Programs Not in the Consortia	No. of Units in Each Program	
					PH	HCV
	PHA 1:					
	PHA 2:					
	PHA 3:					
<b>5.0</b>	<b>5-Year Plan.</b> Complete items 5.1 and 5.2 only at 5-Year Plan update.					
<b>5.1</b>	<b>Mission.</b> State the PHA's Mission for serving the needs of low-income, very low-income, and extremely low income families in the PHA's jurisdiction for the next five years:  <b>N/A – Annual Plan</b>					
<b>5.2</b>	<b>Goals and Objectives.</b> Identify the PHA's quantifiable goals and objectives that will enable the PHA to serve the needs of low-income and very low-income, and extremely low-income families for the next five years. Include a report on the progress the PHA has made in meeting the goals and objectives described in the previous 5-Year Plan.  <b>N/A – Annual Plan</b>					

**PHA Plan Update**

(a) Identify all PHA Plan elements that have been revised by the PHA since its last Annual Plan submission:

No revisions have been made to the PHA Plan elements since the previous submission of NMHC's PHA 5-Year and Annual Plan.

(1) **Eligibility, Selection and Admissions Policies, including Deconcentration and Wait List Procedures:** *No change from previous submission.*

(2) **Financial Resources:** *The following table is updated to reflect the statement of financial resources.*

Financial Resources: Planned Sources and Uses		
Sources	Planned \$	Planned Uses
<b>1. Federal Grants (FY 2011 grants)</b>		
a) Public Housing Operating Fund		
b) Public Housing Capital Fund		
c) HOPE VI Revitalization		
d) HOPE VI Demolition		
e) Annual Contributions for Section 8 Tenant-Based Assistance	\$ 3,336,645.00 \$ 365,579.00	HAP/URP PAYMENTS OPERATIONS/ADMIN EXPENSES
f) Public Housing Drug Elimination Program (including any Technical Assistance funds)		
g) Resident Opportunity and Self-Sufficiency Grants		
h) Community Development Block Grant CDBG ADMIN	\$ 666,152.00 \$ 166,538.00	COMMUNITY DEVELOPMENT OPERATIONS/ADMIN. EXPENSES
i) HOME HOME ADMIN	\$ 485,517.00 \$ 85,679.00	HOME REHAB/CONST. OPERATIONS/ADMIN. EXPENSES
Other Federal Grants (list below)		
1. ESG	\$ 56,468.00	OPERATIONS/ESSENTIAL SERVICES FOR THE EMERGENCY SHELTER
<b>2. Prior Year Federal Grants (unobligated funds only) (list below)</b>		
<b>3. Public Housing Dwelling Rental Income</b>		
<b>4. Other income (list below)</b>		
MULTI-FAMILY SECTION 8	\$ 1,216,128.00	OPERATIONS/ADMIN EXPENSES
<b>4. Non-federal sources (list below)</b>		
<b>INTEREST INCOME ALL NOTES/TCD/SAVINGS</b>	\$ 124,133.00	OPERATIONS/ADMIN EXPENSES
<b>Total resources</b>	<b>\$ 6,502,753.00</b>	

(3) **Rent Determination:** *No change from previous submission.*

(4) **Operation and Management:** *No change from previous submission.*

(5) **Grievance Procedures:** *No change from previous submission.*

(6) **Designated Housing for Elderly and Disabled Families:** *N/A – Applies only to Public Housing.*

(7) **Community Service and Self-Sufficiency:** *N/A – Applies only to Public Housing.*

(8) **Safety and Crime Prevention:** *N/A – Applies only to Public Housing.*

(9) **Pets:** *N/A – Applies only to Public Housing.*

(10) **Civil Rights Certification:** *No change from previous submission.*

(11) **Fiscal Year Audit:** *Please refer to Attachment A (Final FS.pdf) and Attachment B (Final Intcm.pdf)*

(12) **Asset Management:** *N/A – Applies only to Public Housing.*

(13) **Violence Against Women Act (VAWA):** *No change from previous submission.*

(b) Identify the specific location(s) where the public may obtain copies of the 5-Year and Annual PHA Plan. For a complete list of PHA Plan elements, see Section 6.0 of the instructions.

*A copy of NMHC's PHA 5-Year and Annual Plan and its Section 8 Administrative Plan are available at the following locations:*

NMHC Main Office	NMHC Field Office (Rota)	NMHC Field Office (Tinian)
Northern Marianas Housing Corporation Micro Beach Road, Garapan P.O. Box 500514 Saipan, MP 96950 Tel.: (670) 234-6866/9447 Fax: (670) 234-9021 E-mail: housingdiv@nmhc.gov.mp	Northern Marianas Housing Corporation Rota Field Office, Songsong Village P.O. Box 527 Rota, MP 96951 Tel.: (670) 532-9410 Fax: (670) 532-9441 E-mail: rop@nmhc.gov.mp	Northern Marianas Housing Corporation Tinian Field Office, San Jose Village P.O. Box 520412 Tinian, MP 96952 Tel.: (670) 433-9213 Fax: (670) 433-3690 E-mail: tiq@nmhc.gov.mp

**7.0 Hope VI, Mixed Finance Modernization or Development, Demolition and/or Disposition, Conversion of Public Housing, Homeownership Programs, and Project-based Vouchers.** *Include statements related to these programs as applicable. N/A*

**8.0 Capital Improvements.** Please complete Parts 8.1 through 8.3, as applicable. N/A

<b>8.1</b>	<b>Capital Fund Program Annual Statement/Performance and Evaluation Report.</b> As part of the PHA 5-Year and Annual Plan, annually complete and submit the <i>Capital Fund Program Annual Statement/Performance and Evaluation Report</i> , form HUD-50075.1, for each current and open CFP grant and CFFP financing. <u>N/A</u>																																																																																				
<b>8.2</b>	<b>Capital Fund Program Five-Year Action Plan.</b> As part of the submission of the Annual Plan, PHAs must complete and submit the <i>Capital Fund Program Five-Year Action Plan</i> , form HUD-50075.2, and subsequent annual updates (on a rolling basis, e.g., drop current year, and add latest year for a five year period). Large capital items must be included in the Five-Year Action Plan. <u>N/A</u>																																																																																				
<b>8.3</b>	<b>Capital Fund Financing Program (CFFP).</b> <input type="checkbox"/> Check if the PHA proposes to use any portion of its Capital Fund Program (CFP)/Replacement Housing Factor (RHF) to repay debt incurred to finance capital improvements. <u>N/A</u>																																																																																				
<b>9.0</b>	<p><b>Housing Needs.</b> Based on information provided by the applicable Consolidated Plan, information provided by HUD, and other generally available data, make a reasonable effort to identify the housing needs of the low-income, very low-income, and extremely low-income families who reside in the jurisdiction served by the PHA, including elderly families, families with disabilities, and households of various races and ethnic groups, and other families who are on the public housing and Section 8 tenant-based assistance waiting lists. The identification of housing needs must address issues of affordability, supply, quality, accessibility, size of units, and location.</p> <p><i>The sources of information used to conduct this survey for the entire jurisdiction are unavailable at this time.</i></p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th colspan="4" style="text-align: center; padding: 5px;">Housing Needs of Families on the Waiting List</th> </tr> </thead> <tbody> <tr> <td colspan="4" style="padding: 5px;">Waiting list type: (select one)</td> </tr> <tr> <td colspan="4" style="padding: 5px;"><input checked="" type="checkbox"/> Section 8 tenant-based assistance</td> </tr> <tr> <td colspan="4" style="padding: 5px;"><input type="checkbox"/> Public Housing</td> </tr> <tr> <td colspan="4" style="padding: 5px;"><input type="checkbox"/> Combined Section 8 and Public Housing</td> </tr> <tr> <td colspan="4" style="padding: 5px;"><input type="checkbox"/> Public Housing Site-Based or sub-jurisdictional waiting list (optional)</td> </tr> <tr> <td colspan="4" style="padding: 5px;">If used, identify which development/subjurisdiction:</td> </tr> <tr> <td style="width: 45%;"></td> <td style="width: 15%; text-align: center;"># of families</td> <td style="width: 20%; text-align: center;">% of total families</td> <td style="width: 20%; text-align: center;">Annual Turnover</td> </tr> <tr> <td>Waiting list total</td> <td style="text-align: center;">553</td> <td></td> <td></td> </tr> <tr> <td>Extremely low income (&lt;=30% AMI)</td> <td style="text-align: center;">524</td> <td style="text-align: center;">94.75%</td> <td></td> </tr> <tr> <td>Very low income (&gt;30% but &lt;=50% AMI)</td> <td style="text-align: center;">25</td> <td style="text-align: center;">4.52%</td> <td></td> </tr> <tr> <td>Low income (&gt;50% but &lt;80% AMI)</td> <td style="text-align: center;">4</td> <td style="text-align: center;">0.72%</td> <td></td> </tr> <tr> <td>Families with children</td> <td style="text-align: center;">448</td> <td style="text-align: center;">81.01%</td> <td></td> </tr> <tr> <td>Elderly families</td> <td style="text-align: center;">59</td> <td style="text-align: center;">10.67%</td> <td></td> </tr> <tr> <td>Families with Disabilities</td> <td style="text-align: center;">65</td> <td style="text-align: center;">11.76%</td> <td></td> </tr> <tr> <td>White</td> <td style="text-align: center;">7</td> <td style="text-align: center;">1.27%</td> <td></td> </tr> <tr> <td>Black/African American</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0%</td> <td></td> </tr> <tr> <td>American Indian/Alaska Native</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0%</td> <td></td> </tr> <tr> <td>Asian</td> <td style="text-align: center;">42</td> <td style="text-align: center;">7.59%</td> <td></td> </tr> <tr> <td>Native Hawaiian/Other Pacific Islander</td> <td style="text-align: center;">502</td> <td style="text-align: center;">90.78%</td> <td></td> </tr> <tr> <td>Multi-Racial/Declined to Report/Other</td> <td style="text-align: center;">2</td> <td style="text-align: center;">0.36%</td> <td></td> </tr> </tbody> </table> <div style="margin-top: 10px; padding: 5px;"> <p>Is the waiting list closed (select one)? <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes</p> <p>If yes:</p> <p>How long has it been closed (# of months)? <b>27 months</b></p> <p>Does the PHA expect to reopen the list in the PHA Plan year? <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes</p> <p>Does the PHA permit specific categories of families onto the waiting list, even if generally closed? <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes</p> </div>	Housing Needs of Families on the Waiting List				Waiting list type: (select one)				<input checked="" type="checkbox"/> Section 8 tenant-based assistance				<input type="checkbox"/> Public Housing				<input type="checkbox"/> Combined Section 8 and Public Housing				<input type="checkbox"/> Public Housing Site-Based or sub-jurisdictional waiting list (optional)				If used, identify which development/subjurisdiction:					# of families	% of total families	Annual Turnover	Waiting list total	553			Extremely low income (<=30% AMI)	524	94.75%		Very low income (>30% but <=50% AMI)	25	4.52%		Low income (>50% but <80% AMI)	4	0.72%		Families with children	448	81.01%		Elderly families	59	10.67%		Families with Disabilities	65	11.76%		White	7	1.27%		Black/African American	0	0%		American Indian/Alaska Native	0	0%		Asian	42	7.59%		Native Hawaiian/Other Pacific Islander	502	90.78%		Multi-Racial/Declined to Report/Other	2	0.36%	
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9.1	<b>Strategy for Addressing Housing Needs.</b> Provide a brief description of the PHA's strategy for addressing the housing needs of families in the jurisdiction and on the waiting list in the upcoming year. <b>Note: Small, Section 8 only, and High Performing PHAs complete only for Annual Plan submission with the 5-Year Plan.</b>
	<b>A. Need: Shortage of affordable housing for all eligible populations</b>  <i>Strategy 1: Maximize the number of affordable units available to the PHA within its current resources by:</i> a) Undertaking measures to ensure access to affordable housing among families assisted by the PHA, regardless of unit size required; b) Maintaining or increasing section 8 lease-up rates by marketing the program to owners, particularly those outside of areas of minority and poverty concentration and; c) Maintaining or increasing section 8 lease-up rates by effectively screening Section 8 applicants to increase owner acceptance of program.  <i>Strategy 2: Increase the number of affordable housing units by:</i> Pursuing housing resources other than Section 8 tenant-based assistance, such as additional projects under the Low Income Housing Tax Credit (LIHTC) Program.
	<b>B. Need: Specific Family Types: Families at or below 30% of median</b>  <i>Strategy 1: Target available assistance to families at or below 30% of AMI by:</i> Exceeding HUD federal targeting requirements for families at or below 30% of AMI in tenant-based section 8 assistance.
	<b>C. Need: Specific Family Types: Families at or below 50% of median</b>  <i>Strategy 1: Target available assistance to families at or below 50% of AMI by:</i> Employing admissions preferences aimed at families who are working.
	<b>D. Need: Specific Family Types: The Elderly</b>  <i>Strategy 1: Target available assistance to the elderly by:</i> Applying for special-purpose vouchers targeted to the elderly, should they become available.
	<b>E. Need: Specific Family Types: Families with Disabilities</b>  <i>Strategy 1: Target available assistance to Families with Disabilities by:</i> Applying for special-purpose vouchers targeted to families with disabilities, should they become available.
	<b>F. Need: Specific Family Types: Races and ethnicities with disproportionate housing needs</b>  <i>Strategy 2: Conduct activities to affirmatively further fair housing by:</i> Marketing the section 8 program to owners outside the areas of poverty/minority concentrations.  <b>Reasons for Selection Strategies:</b> Funding Constraints.

	<p><b>Additional Information.</b> Describe the following, as well as any additional information HUD has requested.</p> <p>(a) Progress in Meeting Mission and Goals. Provide a brief statement of the PHA's progress in meeting the mission and goals described in the 5-Year Plan.</p> <p><b>Goal 1:</b> NMHC was able to secure additional housing resources through the Low Income Housing Tax Credit (LIHTC), which has led to the construction of the Sandy Beach Homes Project which should be operational by December 2011. NMHC will continue to look for other housing opportunities through the LIHTC Program, as well as monitor HUD's Notices of Funding Availability (NOFA) and/or Super NOFAs for potential opportunities to increase its voucher count in the future. In addition, NMHC is working with the CNMI Delegate to the U.S. Congress, as well as with HUD and the USDA Rural Development Program, to secure additional vouchers. Furthermore, NMHC will also be working with the Veteran's Affairs Office on both Guam and the CNMI in securing additional vouchers under the Veteran's Affairs Supportive Housing Program.</p> <p><b>Goal 2:</b> The hiring of a Special Assistant for the Program and Housing Division has assisted in improving NMHC's SEMAP score to a 93 in FY 2010, which was an increase from a 68 for FY 2009. NMHC will make efforts to maintain its High Performer SEMAP Rating for FY 2011. In addition, NMHC is in the planning stages of developing a customer/landlord satisfaction survey, so as to establish a baseline figure in order to effectively rate customer/landlord satisfaction.</p> <p><b>Goal 3:</b> NMHC is continuing its efforts to successfully register landlords who own above-standard homes under its Section 8 HCV program. Due to the severe economic conditions that continue to affect the entire CNMI, NMHC is still unable to begin its Homeownership Option Program as intended.</p> <p><b>Goal 4:</b> Although the Family Self-Sufficiency Program has yet to begin as intended due to the severe economic conditions that continues to affect the entire CNMI, NMHC intends to work with state agencies, as well as the private sector, to explore the possibilities of providing supportive services to improve assistance and recipients' employability.</p> <p>(b) Significant Amendment and Substantial Deviation/Modification. Provide the PHA's definition of "significant amendment" and "substantial deviation/modification"</p> <p><u>Substantial Deviation:</u> A substantial change in the goals identified in the Five-Year Plan, such as making a formal decision not to pursue a listed goal or substituting an entirely different set of activities to achieve the goal.</p> <p><u>Significant Amendment/Modification:</u> Adding or eliminating major strategies to address housing needs and to major policies or programs; or modifying a strategy such that a substantial transfer of resources away from others is necessary in order to carry it out.</p> <p><b>NOTE:</b> There has been no Significant Amendment or Substantial Deviation/Modification to NMHC's FY 2011 Annual PHA Plan.</p>
11.0	<p><b>Required Submission for HUD Field Office Review.</b> In addition to the PHA Plan template (HUD-50075), PHAs must submit the following documents. Items (a) through (g) may be submitted with signature by mail or electronically with scanned signatures, but electronic submission is encouraged. Items (h) through (i) must be attached electronically with the PHA Plan. <b>Note:</b> Faxed copies of these documents will not be accepted by the Field Office.</p> <p>(a) Form HUD-50077, <i>PHA Certifications of Compliance with the PHA Plans and Related Regulations</i> (which includes all certifications relating to Civil Rights) <b>Attached to PHA Plan.</b></p> <p>(b) Form HUD-50070, <i>Certification for a Drug-Free Workplace</i> (PHAs receiving CFP grants only) <u>N/A</u></p> <p>(c) Form HUD-50071, <i>Certification of Payments to Influence Federal Transactions</i> (PHAs receiving CFP grants only) <u>N/A</u></p> <p>(d) Form SF-LLL, <i>Disclosure of Lobbying Activities</i> (PHAs receiving CFP grants only) <u>N/A</u></p> <p>(e) Form SF-LLL-A, <i>Disclosure of Lobbying Activities Continuation Sheet</i> (PHAs receiving CFP grants only) <u>N/A</u></p> <p>(f) Resident Advisory Board (RAB) comments. Comments received from the RAB must be submitted by the PHA as an attachment to the PHA Plan. PHAs must also include a narrative describing their analysis of the recommendations and the decisions made on these recommendations. <b>N/A. NMHC does not have any Public Housing Units and has made the decision to exempt itself from participation.</b></p> <p>(g) Challenged Elements – <b>NMHC has identified that there are no challenged elements.</b></p> <p>(h) Form HUD-50075.1, <i>Capital Fund Program Annual Statement/Performance and Evaluation Report</i> (PHAs receiving CFP grants only) <u>N/A</u></p> <p>(i) Form HUD-50075.2, <i>Capital Fund Program Five-Year Action Plan</i> (PHAs receiving CFP grants only) <u>N/A</u></p>

13. The PHA will take appropriate affirmative action to award contracts to minority and women's business enterprises under 24 CFR 5.105(a).
14. The PHA will provide the responsible entity or HUD any documentation that the responsible entity or HUD needs to carry out its review under the National Environmental Policy Act and other related authorities in accordance with 24 CFR Part 58 or Part 50, respectively.
15. With respect to public housing the PHA will comply with Davis-Bacon or HUD determined wage rate requirements under Section 12 of the United States Housing Act of 1937 and the Contract Work Hours and Safety Standards Act.
16. The PHA will keep records in accordance with 24 CFR 85.20 and facilitate an effective audit to determine compliance with program requirements.
17. The PHA will comply with the Lead-Based Paint Poisoning Prevention Act, the Residential Lead-Based Paint Hazard Reduction Act of 1992, and 24 CFR Part 35.
18. The PHA will comply with the policies, guidelines, and requirements of OMB Circular No. A-87 (Cost Principles for State, Local and Indian Tribal Governments), 2 CFR Part 225, and 24 CFR Part 85 (Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments).
19. The PHA will undertake only activities and programs covered by the Plan in a manner consistent with its Plan and will utilize covered grant funds only for activities that are approvable under the regulations and included in its Plan.
20. All attachments to the Plan have been and will continue to be available at all times and all locations that the PHA Plan is available for public inspection. All required supporting documents have been made available for public inspection along with the Plan and additional requirements at the primary business office of the PHA and at all other times and locations identified by the PHA in its PHA Plan and will continue to be made available at least at the primary business office of the PHA.
21. The PHA provides assurance as part of this certification that:
  - (i) The Resident Advisory Board had an opportunity to review and comment on the changes to the policies and programs before implementation by the PHA;
  - (ii) The changes were duly approved by the PHA Board of Directors (or similar governing body); and
  - (iii) The revised policies and programs are available for review and inspection, at the principal office of the PHA during normal business hours.
22. The PHA certifies that it is in compliance with all applicable Federal statutory and regulatory requirements.

**Northern Marianas Housing Corporation**

**TQ901**

PHA Name

PHA Number/HA Code

       5-Year PHA Plan for Fiscal Years 20 - 20

XX Annual PHA Plan for Fiscal Years 20~~1~~<sup>1</sup> - 20~~1~~<sup>1</sup>

I hereby certify that all the information stated herein, as well as any information provided in the accompaniment herewith, is true and accurate. **Warning:** HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

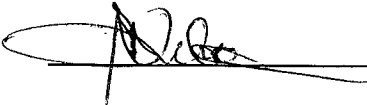
Name of Authorized Official

**Merced (Marcie) M. Tomokane**

Title

**Chairwoman, NMHC Board of Directors**

Signature



Date

09/06/11

**Certification by State or Local  
Official of PHA Plans Consistency  
with the Consolidated Plan**

**U.S. Department of Housing and Urban Development  
Office of Public and Indian Housing  
OMB# 2577-0226  
Expires 08/30/2011**

**Certification by State or Local Official of PHA Plans Consistency with the  
Consolidated Plan**

I, Merced (Marcie) M. Tomokane the Chairwoman, NMHC Board of Directors certify that the Five Year and Annual PHA Plan of the Northern Marianas Housing Corporation is consistent with the Consolidated Plan of the Commonwealth of the Northern Mariana Islands prepared pursuant to 24 CFR Part 91.

 09/06/11  
Signed / Dated by Appropriate State or Local Official

NORTHERN MARIANAS HOUSING CORPORATION  
(A DIVISION OF THE  
COMMONWEALTH DEVELOPMENT AUTHORITY)

REPORT ON THE AUDIT OF  
FINANCIAL STATEMENTS  
IN ACCORDANCE WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2009



NORTHERN MARIANAS HOUSING CORPORATION  
(A DIVISION OF THE  
COMMONWEALTH DEVELOPMENT AUTHORITY)

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2009

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Northern Marianas Housing Corporation:

We have audited the accompanying statement of net assets of the Northern Marianas Housing Corporation (NMHC), a division of the Commonwealth Development Authority (CDA), as of September 30, 2009 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of NMHC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NMHC's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the financial position, changes in net assets and cash flows of NMHC. They are not intended to present the financial position, changes in net assets and cash flows of CDA in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of NMHC as of September 30, 2009 and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Northern Marianas Housing Corporation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Deloitte & Touche LLC*

October 18, 2010





# NORTHERN MARIANAS HOUSING CORPORATION

P.O. BOX 500514, Saipan, MP 96950-0514

Tels: (670) 234-6866  
234-9447  
234-7689  
234-7670  
Fax: (670) 234-9021

## Management's Discussion and Analysis Year Ended September 30, 2009

The Management's Discussion and Analysis of the Northern Marianas Housing Corporation (NMHC) financial performance provides an overview of NMHC's financial activity for the fiscal year ended September 30, 2009, with selected comparative information for the fiscal year ended September 30, 2008. Please read it in conjunction with the more detailed information contained within the accompanying financial statements.

NMHC is a multifaceted organization that offers direct housing loans, housing loan guarantees, rental properties, housing and community development and where necessary, infrastructure development.

NMHC finalized the closing of Tottotville and forty-five houses are fully occupied and sold to respective homeowners. With the closure of the Expansion Project, NMHC is in the process of transferring infrastructure values to the Commonwealth Utilities Corporation (CUC) and the Department of Public Works. During fiscal year 2005, homeowners filed complaints with respect to the poor workmanship in the construction of their homes. The designer/construction manager and contractor for the subdivision have been contacted and all parties are addressing the areas of complaints. Mediation was also pursued; however, major issues being disputed are still unresolved by parties involved. Court hearings are ongoing with the latest held on January 5, 2010. In fiscal year 2009, NMHC settled with thirty-five of the forty-five homeowners and has filed a lawsuit against the contractor and the designer/construction manager.

Another major concern is Public Law (PL) 15-48 which Governor Benigno R. Fitial signed into law on March 13, 2007. This law repealed in its entirety, 2 CMC § 4486 and 4498, and amended 2 CMC §4497 to eliminate the moratorium extended to NMHC on the loan made to NMHC by the Marianas Public Land Trust (MPLT). PL 15-48 imposed serious financial burdens as NMHC was required to commence payment to MPLT. During fiscal year 2008, MPLT and NMHC finalized a portfolio transfer and resolved the financial burden imposed on NMHC.

### *Mortgage & Credit Division*

The Mortgage & Credit Division is currently in the process of revamping the HOME Program policies and procedures so that the U.S. Department of Housing and Urban Development (HUD) regulations are properly addressed. The processing of rehabilitation and new construction loans for this specific program has been put on hold until the policies and procedures are in place and reviewed by HUD.

In June 2008, the Agreement Between the Parties, the U.S. Department of Agriculture (USDA) Rural Development (USDA RD) and the Northern Marianas Housing Corporation to Resolve Defaulted USDA Rural Development Loans was executed. This agreement has been established to outline the steps and mutually agreed-upon terms in liquidating defaulted USDA RD loans which NMHC agreed to act as trustee on deeds of trust securing USDA RD housing loans in the CNMI. The loans and properties covered by this agreement are accelerated accounts and accounts that are expected to be accelerated in the near future. This agreement encompasses forty-eight seriously delinquent loans.

On July 30, 2008, PL 110-289, or the Housing and Economic Recovery Act of 2008 (HERA), created the Neighborhood Stabilization Program (NSP). NSP is a HUD program which provides emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their respective communities. NSP provides grants to every state and local community to purchase foreclosed or abandoned homes and to rehabilitate, resale, or redevelop these homes in order to stabilize neighborhoods and stem the decline of house values of neighboring homes. NMHC intends to use the grant provided by this program to address the problems created by foreclosed and abandoned homes. Foreclosed homes will be acquired, rehabilitated, and resold to low income families.

## ***Program and Housing Division***

### **A. Saipan Housing Choice Voucher Program**

In fiscal year 2009, the Housing Choice Voucher Program utilized 330 vouchers, fifty-three of which were given to applicants on the waiting list. In January 2009, the waiting list was closed due to the number of applicants on the list. Demand for the Housing Choice Voucher Program is high due to the portability of the program and the applicant's ability to select a unit in an area of their choice.

### **B. Saipan Multi-Family/New Construction Program**

At the end of fiscal year 2009, Mihaville had forty-seven occupants of forty-eight units and Koblerville had thirty-two occupants of thirty-four units. Although Mihaville and Koblerville are almost at full capacity, there has been a turnover of tenants due to tenant requests to relocate. Both properties are well maintained and NMHC will continue its efforts to prepare for future REAC inspections.

### **C. Short-Term Goals**

Goals of the Program and Housing Division are to a) maintain efforts to apply for additional rental vouchers by continuing to monitor HUD's Notices of Funding Availability (NOFA) and/or Super NOFAs for potential opportunities to increase its voucher count in the future; b) improve voucher management by addressing certain performance indicators to potentially increase its Section 8 Management Assessment Program Rating; c) increase customer satisfaction; and d) continue planning efforts towards the development and possible implementation of the Family Self-Sufficiency Program should the severe economic conditions begin to improve in the CNMI.

## ***Rota Field Office***

### **A. Rota Housing Choice Voucher Program**

At the end of fiscal year 2009, twenty-five Housing Choice Vouchers (HCV) were utilized on Rota. This figure represents a five voucher decrease in the total number of vouchers utilized in the previous fiscal year, and is half of the total number of HCV (50) that were awarded by HUD to the island of Rota after Typhoon Pongsona. The demand for additional vouchers still exists, especially since qualified families prefer the HCV Program over the Multi-Family/New Construction Program for many reasons. The NMHC Rota Field Office receives numerous calls from interested families inquiring about the availability of vouchers. However, with the knowledge of the limited availability of vouchers and long waiting period, many qualified families choose not to go through the application process. Housing assistance to prospective tenants on the waiting list is on a first-come first-serve basis.

### **B. Rota Multi-Family/New Construction Program**

The NMHC Rota Multi-Family/New Construction Program has been experiencing a low occupancy rate for several years. At the end of fiscal year 2009, eleven of thirty housing units at the Liyo' Housing Subdivision were occupied. This figure translates to a 36.66% occupancy rate. The low occupancy rate could be attributed to the following factors:

#### **1. HCV Program**

- a. The existence of the HCV Program has led to many qualified applicants for housing assistance wanting to apply for this program instead;
- b. Applicants qualified for housing assistance prefer the HCV Program because of the ability to choose a housing unit at a preferred location; and
- c. Housing units registered under the HCV Program are typically semi to fully furnished, unlike the housing units under the Multi-Family/New Construction Program.

## ***Rota Field Office, Continued***

### **2. Condition of the Housing Units**

- a. Safety concerns have been one of the biggest reasons why the NMHC Rota Field Office struggles to occupy the vacant units under the Multi-Family/New Construction Program. The housing units at the Liyo' Housing Subdivision have undergone and continue to undergo constant repairs due to hairline and severe cracks that are formed on the walls and ceilings due to the condition of rebar which have been slowly deteriorating because of moisture. Maintaining these units is costing NMHC significant amounts of money annually for materials and labor.

### **3. Utility Security Deposit**

- a. Applicants find it very difficult to afford the security deposit required by CUC in order to connect to utilities. NMHC requires a receipt of payment for utility connection prior to moving in a tenant.

Despite the problems that exist within the Multi-Family/New Construction Program, efforts to increase the occupancy rate at the Liyo' Housing Subdivision are ongoing. The Rota Field Office advertises the vacant units and informs the general public of the housing assistance available to qualified applicants. Print advertisements and notices posted on the local television channel are some of the methods used to reach the public. Furthermore, constant repairs and maintenance are being conducted to ensure the units meet HUD's Uniform Physical Condition Standards so that NMHC may continue to provide housing assistance to families in need.

## **C. Short-Term Goals**

The goal of the NMHC Rota Field Office is to increase the occupancy rate at the Liyo' Housing Subdivision. To attain this goal, NMHC must continue with the repairs and maintenance of the units and ultimately find a more adequate long-term solution to the deteriorating conditions. NMHC will have to provide additional amenities to clients, such as providing basic furniture (beds, dining tables, etc.), improving lighting, creating a community garden, providing a small playground or picnic grounds, etc., to attract qualified families. Finally, the NMHC Rota Field Office will continue to work with the Mayor's office and other agencies such as the Department of Community & Cultural Affairs and the Northern Marianas Protection & Advocacy Systems Inc. to promote and educate the local community about the housing assistance available through our Section 8 Program.

## ***Tinian Field Office***

### **A. Tinian Multi-Family/New Construction and Voucher Programs**

1. The Tinian Multi-Family/New Construction Program has twenty units. All of the units are fully occupied; however, there is a turnover of tenants due to tenants obtaining employment and preferring to move into an inexpensive residence despite the condition. In the past, people have been reluctant to apply to the program, but with ongoing renovation and maintenance we have managed to keep these units occupied. In addition, people previously visualized the area as a "ghetto", but that outlook has changed.
2. There were five vouchers issued; however, only one is being utilized on Tinian and the other four were transferred to Saipan. There have been inquiries from Tinian students enrolled at the Northern Marianas College who have to relocate to Saipan. People are still encouraged to apply to the program even if there is a shortage of vouchers. This is one way for us to justify requesting for additional vouchers for Tinian. Some applicants request to be included on the waiting list for both programs.

### ***Tinian Field Office, Continued***

#### **B. Loans**

1. The Tinian Field Office continues to work with applicants whose loans have been approved but not disbursed. There are also new applications for renovation or construction of new homes. The delay was due to changes to the HOME Program policies and procedures which were approved on July 23, 2009 and the additional requirement of environmental assessment on the properties.

One of the goals is to work with management and local leadership to address the needs of the new homesteaders. There were 475 homestead applicants that drew homestead properties in various areas around Tinian, however, the survey for these lots has not been completed.

### ***Community Development Block Grants/Special Purpose Grants/Insular Areas (CDBG)***

NMHC received \$1,528,092 in CDBG funding in fiscal year 2009. As stated in the Consolidated Plan, Community Development goals include the following:

- Infrastructure upgrades to provide basic services to the community and encourage economic development;
- Create an environment that is both functional and inviting to businesses, residents, and tourists;
- Provide support for limited clientele and community needs; and
- Promote community health, team work, and sportsmanship.

Because of limited funding in fiscal year 2009, NMHC allocated the entire CDBG grant amount to the following projects:

- Tinian Shelter/Tinian Public Library Public Service
- Garapan Central Market/Susupe Sports Complex
- Tinian Amphitheater Phase I
- Rota Walkway
- Paupau MRR/NMI Japan Cultural Center
- Tinian Amphitheater Phase II
- Susupe Sports Complex
- Marianas High School Building J
- Capitol Hill 1.0 MG Reservoir Rehabilitation

The above projects fulfill the aforementioned goals of promoting community health, team work, and sportsmanship and creating an environment that is both functional and inviting to businesses, residents, and tourists. Despite challenges along the way, such as environmental issues, NMHC continues to work with the CNMI Capital Improvement Projects Office and regulatory agencies to address any set-backs with regards to environmental assessment. NMHC is still working towards fulfilling its goals as stated in the Five-Year Consolidated Plan.

### ***Emergency Shelter Grants Program (ESG)***

NMHC received \$52,874 in ESG grants in fiscal year 2009. As in previous years, ESG has been allocated to the Guma Esperansa shelter and the Division of Youth Services (DYS) shelter. The Guma Esperansa shelter serves women and their children who are victims of domestic violence and human trafficking. The DYS Shelter serves youths who are victims of child abuse/neglect and are runaways. ESG funding is used to assist with the operational costs and essential services of both shelters.



**Statements of Net Assets  
As of September 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>% Change</b>
Current assets	\$ 2,571,175	\$ 2,387,528	\$ 183,647	8%
Other assets	3,390,606	4,743,094	(1,352,488)	-29%
Capital assets	12,111,587	12,357,349	(245,762)	-2%
Noncurrent assets	<u>1,334,126</u>	<u>1,933,012</u>	<u>(598,886)</u>	-31%
<b>Total assets</b>	<b>\$ <u>19,407,494</u></b>	<b>\$ <u>21,420,983</u></b>	<b>\$ <u>(2,013,489)</u></b>	<b>-9%</b>
Current liabilities	\$ 3,021,797	\$ 3,417,646	\$ (395,849)	-12%
Noncurrent liabilities	<u>4,405,399</u>	<u>4,514,515</u>	<u>(109,116)</u>	-2%
<b>Total liabilities</b>	<b><u>7,427,196</u></b>	<b><u>7,932,161</u></b>	<b><u>(504,965)</u></b>	<b>-6%</b>
Invested in capital assets	12,111,587	12,357,349	(245,762)	-2%
Restricted	<u>(131,289)</u>	<u>1,131,473</u>	<u>(1,262,762)</u>	-112%
<b>Total net assets</b>	<b><u>11,980,298</u></b>	<b><u>13,488,822</u></b>	<b><u>(1,508,524)</u></b>	<b>-11%</b>
<b>Total liabilities and net assets</b>	<b>\$ <u>19,407,494</u></b>	<b>\$ <u>21,420,983</u></b>	<b>\$ <u>(2,013,489)</u></b>	<b>-9%</b>

**Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>% Change</b>
Operating revenues	\$ 7,675,423	\$ 7,222,831	\$ 452,592	6%
Bad debts	<u>(279,025)</u>	<u>(2,399,030)</u>	<u>2,120,005</u>	-88%
<b>Net operating revenues</b>	<b><u>7,396,398</u></b>	<b><u>4,823,801</u></b>	<b><u>2,572,597</u></b>	<b>53%</b>
Operating expenses	<u>8,559,197</u>	<u>6,910,148</u>	<u>1,649,049</u>	24%
<b>Operating loss</b>	<b><u>(1,162,799)</u></b>	<b><u>(2,086,347)</u></b>	<b><u>923,548</u></b>	<b>-44%</b>
Nonoperating revenues (expenses), net	<u>(345,725)</u>	<u>2,623,076</u>	<u>(2,968,801)</u>	-113%
<b>Change in net assets</b>	<b><u>(1,508,524)</u></b>	<b><u>536,729</u></b>	<b><u>(2,045,253)</u></b>	<b>-381%</b>
Net assets - beginning	<u>13,488,822</u>	<u>12,952,093</u>	<u>536,729</u>	4%
<b>Net assets - ending</b>	<b>\$ <u>11,980,298</u></b>	<b>\$ <u>13,488,822</u></b>	<b>\$ <u>(1,508,524)</u></b>	<b>-11%</b>

**Statements of Cash Flows  
Years Ended September 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>% Change</b>
Cash flows from operating activities	\$ (1,328,625)	\$ 336,884	\$ (1,665,509)	-494%
Cash flows from capital and related financing activities	(235,075)	(1,490,427)	1,255,352	-84%
Cash flows from investing activities	<u>1,367,477</u>	<u>1,412,372</u>	<u>(44,895)</u>	-3%
<b>Net (decrease) increase in cash and cash equivalents</b>	<b><u>(196,223)</u></b>	<b><u>258,829</u></b>	<b><u>(455,052)</u></b>	<b>-176%</b>
Cash and cash equivalents at beginning of year	<u>1,300,584</u>	<u>1,041,755</u>	<u>258,829</u>	25%
<b>Cash and cash equivalents at end of year</b>	<b>\$ <u>1,104,361</u></b>	<b>\$ <u>1,300,584</u></b>	<b>\$ <u>(196,223)</u></b>	<b>-15%</b>



## FINANCIAL HIGHLIGHTS

- Total assets decreased by 9% from \$21,420,983 in fiscal year 2008 to \$19,407,494 in fiscal year 2009 mainly due to housing assistance payments (HAP) equity being utilized to fund the deficiency in revenues received from the grantor over actual HAP payments made for fiscal year 2009. In addition, all disaster vouchers from Typhoons Tingting and Chaba were converted to regular vouchers bringing the total to 363 voucher units that NMHC now administers and monitors for compliance.
- Total liabilities decreased by 6% from \$7,932,161 in fiscal year 2008 to \$7,427,196 in fiscal year 2009 and total net assets decreased by 11% from \$13,488,822 in fiscal year 2008 to \$11,980,298 in fiscal year 2009.
- Net operating revenues increased by 53% from \$4,823,801 in fiscal year 2008 to \$7,396,398 in fiscal year 2009. A significant component of this change is bad debts, which decreased by 88% from \$2,399,030 in fiscal year 2008 to \$279,025 in fiscal year 2009.
- Total operating expenses increased by 24% from \$6,910,148 in fiscal year 2008 to \$8,559,197 in fiscal year 2009. The increase is primarily attributable to the provision for loan guaranty and increases in Section 8 rental expenses, repairs and maintenance, salaries and wages, utilities, travel and ESG Program Grant expenses.

## Capital Assets and Debt Administration

### *Capital Assets*

At September 30, 2009 and 2008, NMHC had \$12,111,587 and \$12,357,349, respectively, invested in capital assets, net of depreciation where applicable. This represents a net decrease of \$245,762 or 2% during fiscal year 2009.

	2009	2008
Property and equipment, net	\$ 1,935,160	\$ 2,277,922
Land	9,747,313	9,650,313
Foreclosed real estate	<u>429,114</u>	<u>429,114</u>
	\$ <u>12,111,587</u>	\$ <u>12,357,349</u>

See notes 2 and 6 to the financial statements for more detailed information on NMHC's capital assets and changes therein.

### *Long-Term Debt*

At September 30, 2009 and 2008, NMHC had \$510,656 in long-term debt outstanding. See note 5 to the financial statements for more detailed information on NMHC's long-term debt and changes therein.

## ECONOMIC OUTLOOK

NMHC's CDBG grant allocation was reduced by \$506,421 for FY 2009 resulting in a CDBG administrative loss of \$101,284. This is due to a HUD funding reduction. NMHC has a five-year plan for all community planning and development programs and is committed to its current allocations. NMHC will lower expenses following the cost reduction approach in the future. With regards to the Section 8 Multifamily project on Rota, the revenue will decrease due to the thirty-three percent occupancy rate, which resulted in applicants relocating to the U.S. mainland to look for better opportunities and make additional income for their families. This will result in another decrease of revenue in the amount of \$215,000.

## **ECONOMIC OUTLOOK, CONTINUED**

The CNMI's economic outlook continues to be uncertain. Austerity measures continue to be in effect government wide in fiscal year 2010 to compensate for decreased revenues. The tourism industry and the garment industry, which played material roles in driving the CNMI's economy, have been in decline for a number of years. A series of unfortunate events hindered the return of tourist arrival levels to that enjoyed in the 1990's and thus the industry and the economy continue to suffer. Tourism overall appears to be on the rebound and partially stabilized. The garment industry has declined almost entirely, compounding the CNMI's economic woes. While several efforts are underway to look at alternative industries to revive the economy no immediate appreciable growth is anticipated in the foreseeable future.

As a result of the dwindling resources available for NMHC, the budget of federal funds will also be affected and is expected to decrease until recovery. As such, NMHC continues to apply the cost reduction approach to lower the deficit for every fiscal year. NMHC continues to take internal measures to ensure that this would not result in a deficit. The continuing economic challenges may result in further budget reductions in fiscal year 2011 but NMHC has mechanisms in place to closely monitor such actions and is actively pursuing alternative funding opportunities to compensate for reductions in the traditional sources of funding.

## **CONTACTING NMHC'S MANAGEMENT**

This financial report is designed to provide a general overview of NMHC's financial condition and to demonstrate its accountability for monies received. The Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in the report on the audit of the Commonwealth Development Authority's financial statements which is dated May 7, 2010. That Discussion and Analysis explains the major factors impacting NMHC's 2008 financial statements. If you have questions about this report or need additional financial information, please contact Mr. Joshua T. Sasamoto, NMHC Corporate Director, P.O. Box 500514, Saipan, MP 96950-0514, or call (670) 234-6866/9447 or send email to [jtsasamoto@nmhc.gov.mp](mailto:jtsasamoto@nmhc.gov.mp).

# NORTHERN MARIANAS HOUSING CORPORATION

## Statement of Net Assets September 30, 2009

### ASSETS

Current assets:	
Cash and cash equivalents	\$ 1,104,361
Receivables:	
Loans, net	873,469
Rent, net	89,142
Accrued interest, net of allowance for doubtful accounts of \$825,695	411,275
Other	86,047
Prepaid expenses	6,881
Total current assets	<u>2,571,175</u>
Other assets:	
Cash and cash equivalents, restricted	<u>3,390,606</u>
Noncurrent assets:	
Loans receivable, net	1,334,126
Property and equipment, net	1,935,160
Land	9,747,313
Foreclosed real estate	429,114
Total noncurrent assets	<u>13,445,713</u>
	<u><u>\$ 19,407,494</u></u>

### LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	\$ 636,095
Due to grantor agency	783,795
Reserve for loan guaranty	1,601,907
Total current liabilities	3,021,797
Deferred revenues	3,894,743
Due to CDA	510,656
Total liabilities	<u>7,427,196</u>
Contingencies	
Net assets:	
Invested in capital assets	12,111,587
Restricted	(131,289)
Total net assets	<u>11,980,298</u>
	<u><u>\$ 19,407,494</u></u>

See accompanying notes to financial statements.

# NORTHERN MARIANAS HOUSING CORPORATION

## Statement of Revenues, Expenses and Changes in Net Assets Year Ended September 30, 2009

Operating revenues:	
Interest and fees on loans	\$ 509,769
Section 8 income:	
Federal housing assistance rentals	4,964,888
Tenant share	81,547
CDBG Program Grant	1,528,092
ESG Program Grant	52,874
Other	<u>538,253</u>
	7,675,423
Bad debts	<u>(279,025)</u>
Net operating revenues	<u>7,396,398</u>
Operating expenses:	
Section 8 rental	3,406,966
CDBG Program Grant	1,528,092
Repairs and maintenance	931,540
Provision for loan guaranty	772,280
Salaries and wages	581,556
Depreciation	395,638
Utilities	293,563
Employee benefits	184,001
Professional fees	140,101
Travel	98,191
ESG Program Grant	52,435
Office rent	4,239
Other	<u>170,595</u>
Total operating expenses	<u>8,559,197</u>
Operating loss	<u>(1,162,799)</u>
Nonoperating revenues (expenses):	
Interest income	14,989
Settlement expense	(286,062)
Interest expense	(540)
Other expense	<u>(74,112)</u>
Total nonoperating revenues (expenses), net	<u>(345,725)</u>
Change in net assets	(1,508,524)
Net assets - beginning	<u>13,488,822</u>
Net assets - ending	<u><u>\$ 11,980,298</u></u>

See accompanying notes to financial statements.

# NORTHERN MARIANAS HOUSING CORPORATION

## Statement of Cash Flows Year Ended September 30, 2009

Cash flows from operating activities:	
Cash received from interest and fees on loans receivable	\$ 133,334
Cash payments to suppliers for goods and services	(710,515)
Cash received from customers	543,970
Cash payments to employees for services	(581,556)
Cash received from federal grant awards	5,573,592
Cash payments from federal grant awards	<u>(6,287,450)</u>
Net cash used for operating activities	<u>(1,328,625)</u>
Cash flows from capital and related financing activities:	
Acquisition of property and equipment	(52,876)
Acquisition of land	(97,000)
Net proceeds from loans receivable	275,515
Interest paid on notes payable	(540)
Payments to homeowners	(286,062)
Payments for loan guarantees	<u>(74,112)</u>
Net cash used for capital and related financing activities	<u>(235,075)</u>
Cash flows from investing activities:	
Net proceeds from restricted cash and cash equivalents	1,352,488
Interest received	<u>14,989</u>
Net cash provided by investing activities	<u>1,367,477</u>
Net decrease in cash and cash equivalents	(196,223)
Cash and cash equivalents at beginning of year	<u>1,300,584</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,104,361</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (1,162,799)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Bad debts	279,025
Provision for loan guaranty	772,280
Depreciation	395,638
(Increase) decrease in assets:	
Receivables:	
Rent	(81,589)
Other	5,760
Accrued interest	(376,435)
Prepaid expenses	7,624
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(195,867)
Due to grantor agency	<u>(972,262)</u>
Net cash provided by operating activities	<u><u>\$ (1,328,625)</u></u>

See accompanying notes to financial statements.

# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Financial Statements September 30, 2009

### (1) Reporting Entity

The Northern Marianas Housing Corporation (NMHC), a division of the Commonwealth Development Authority (CDA), formerly the Mariana Islands Housing Authority (MIHA), was established under Public Law 5-37 to assist in the development and administration of low cost residential housing in the Northern Mariana Islands. In 1977, Public Law 5-37 was succeeded by Public Law 5-67, which empowered MIHA to provide low cost residential housing and employment through the construction, maintenance, and repair of such housing. On October 20, 1994, Executive Order 94-3 became effective which abolished MIHA and all of its functions, assets and liabilities were transferred to CDA. CDA established NMHC as a division to account for the operations, assets and liabilities of MIHA. NMHC is governed by a five member Board of Directors appointed by the Board of Directors of CDA. The purpose and functions of NMHC are as follows:

- To administer direct loans to qualified individuals for housing construction;
- To participate as guarantor or trustee in housing loan programs;
- To develop and construct rental housing;
- To construct and/or administer various other Federal and local residential and housing projects; and
- To participate in projects subsidized by the U.S. Department of Housing and Urban Development (HUD). Upon completion of the projects, the residential units are rented to qualifying families and individuals.

As such, NMHC considers all its net assets, except net assets invested in capital assets, to be restricted for such purposes.

As of and for the year ended September 30, 2008, NMHC's financial statements were included with those of CDA. For the year ended September 30, 2009, NMHC has elected to issue stand alone financial statements.

### (2) Summary of Significant Accounting Policies

The accounting policies of NMHC conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. NMHC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Financial Statements September 30, 2009

### (2) Summary of Significant Accounting Policies, Continued

#### Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the statements of net assets. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

#### Budgets

In accordance with Public Law 3-68, the Planning and Budgeting Act of 1983, NMHC submits an annual budget to the CNMI Office of the Governor.

#### Cash and Cash Equivalents

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1     Deposits that are federally insured or collateralized with securities held by NMHC or its agent in NMHC's name;
- Category 2     Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in NMHC's name; or
- Category 3     Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in NMHC's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, NMHC's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. NMHC does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and cash flows, cash and cash equivalents is defined as cash held in demand deposits and savings. At September 30, 2009, total unrestricted cash and cash equivalents were \$1,104,361 and the corresponding bank balances were \$1,658,538 which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of \$305,127 were FDIC insured as of September 30, 2009. CNMI law does not require component units to collateralize their bank accounts and thus NMHC's deposits in excess of FDIC insurance are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Financial Statements September 30, 2009

### (2) Summary of Significant Accounting Policies, Continued

#### Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses.

#### Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets. Current policy is to capitalize items in excess of \$500.

Long-lived assets for which management has committed to a plan to dispose of the assets, whether by sale or abandonment, are reported at the lower of carrying amount or fair value less costs to sell.

#### Land

Land is recorded at fair market value at the date of acquisition. Valuations are periodically performed by management and adjustments are made to reflect the land at the lower of the carrying amount or fair market value. The carrying amount of the land is evaluated on an annual basis to determine impairment by estimating the recoverable value. Recoverable value is based on management's historical knowledge and changes in market conditions from the time of valuation. An impairment loss is recognized in the period in which it arises.

#### Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure less estimated selling costs establishing a new cost basis. Valuations are periodically performed by management and adjustments are made to reflect the real estate at the lower of the carrying amount or fair value less estimated costs to sell. Operating expenses or income, reductions in estimated values, and gains or losses on disposition of such properties are charged to current operations. Foreclosed real estate amounted to \$429,114 at September 30, 2009.

#### Loans Receivable, Interest Receivable and Allowance for Loan Losses

Loans and interest receivable are stated at the amount of unpaid principal and interest, reduced by an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for doubtful accounts charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may be uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay.



# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Financial Statements September 30, 2009

### (2) Summary of Significant Accounting Policies, Continued

#### Restricted Cash and Cash Equivalents

As described in note 1, NMHC administers various Federal and local residential and housing projects. In administering these programs, NMHC is required to maintain certain funds as collateral or in accounts which are restricted for specific purposes.

#### Revenue Recognition

Operating revenues include all direct revenues such as interest and fees on loans, federal grants and interest on investments.

Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Interest on loans is accrued and credited to income based on the principal amount outstanding for both performing and nonperforming loans. Due to current confines of NMHC's system, interest on nonperforming loans remains to be accrued and credited to income. However, a bad debt expense is recognized for the amount of interest deemed uncollectible. NMHC are currently working to be able to prospectively cease recognition of interest income on nonperforming loans.

Federal grant revenues are recognized when allowable expenses are incurred.

Non-operating revenues result from capital and financing activities.

#### Deferred Revenues

Deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. Deferred revenues include prepaid lease income on foreclosed real estate held for lease and recorded loan receivables from individuals eligible under the HOME Investment Partnerships program administered by NMHC.

#### Compensated Absences

Vested or accumulated vacation leave is recorded as benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Accumulated sick pay benefits as of September 30, 2009 was \$158,917.

#### Retirement Plan

NMHC contributes to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan) and defined contribution plan (DC Plan), a cost sharing, and multi-employer plan (the Plan) established and administered by the CNMI.

The Plan provides retirement, security and other benefits to employees, and their spouses and dependents, of the CNMI Government and CNMI agencies, instrumentalities and public corporations. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19 and 11-9.

# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Financial Statements September 30, 2009

### (2) Summary of Significant Accounting Policies, Continued

#### Retirement Plan, Continued

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. NMHC has complied with GASB 45 by recording OPEB expense based on the statutory determined contribution rate of the Fund. NMHC's OPEB liability is incorporated into the contribution amount. It is the understanding of the management of NMHC that the statutory determined contribution rate of the Fund incorporates both the pension liability and the OPEB liability. GASB 45 also requires detailed disclosure of information related to the OPEB plan and NMHC management was unable to obtain this information from the Fund financial report. NMHC management is unable to obtain the required disclosures and is of the opinion that such information must be obtained from the Fund. It is the position of the management of NMHC that the Fund is solely responsible for disclosure of OPEB information.

The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

#### Defined Benefit Plan (DB Plan)

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. NMHC is required to contribute at an actuarially determined rate. The actuarially determined contribution rate for the fiscal year ended September 30, 2008 is 29.9665% of covered payroll based on an actuarial valuation as of October 1, 2007 issued in December 2008. The actuarially determined contribution rate for the fiscal year ended September 30, 2009 has not been determined. The established statutory rate at September 30, 2009 is 36.6667% of covered payroll.

#### Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. NMHC is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The DC Plan by its nature is fully funded on a current basis from employer and member contributions.

NMHC's contributions to the Fund for the years ended September 30, 2009, 2008 and 2007 were \$143,264, \$132,635 and \$203,783, respectively, which were equal to the required contributions for each year.

# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Financial Statements September 30, 2009

### (2) Summary of Significant Accounting Policies, Continued

#### Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, has required NMHC to establish net asset categories as follows:

- Invested in capital assets; capital assets, net of accumulated depreciation.
- Restricted:

Nonexpendable - Net assets subject to externally imposed stipulations that NMHC maintain them permanently. At September 30, 2009 NMHC does not have nonexpendable net assets.

Expendable - Net assets whose use by NMHC is subject to externally imposed stipulations that can be fulfilled by actions of NMHC pursuant to those stipulations or that expire by the passage of time. As described in note 1, NMHC considers all assets, except investments in capital assets, to be restricted for economic development.

- Unrestricted; net assets that are not subject to externally imposed stipulations. As NMHC considers all assets, except investments in capital assets, to be restricted for economic development, NMHC does not have unrestricted net assets of September 30, 2009.

#### New Accounting Standards

During fiscal year 2009, NMHC implemented the following pronouncements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Financial Statements September 30, 2009

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, Continued

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Financial Statements September 30, 2009

### (2) Summary of Significant Accounting Policies, Continued

#### Off-Balance Sheet Financial Instruments

In the ordinary course of business, NMHC has entered into off-balance sheet financial instruments consisting of commitments to extend credit and loan guarantees. Such financial instruments are recorded in the financial statements when they become payable.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (3) Restricted Cash and Cash Equivalents

NMHC maintains depository accounts with financial institutions in the CNMI which are restricted for various purposes, as detailed below. At September 30, 2009 restricted cash and cash equivalents consist of amounts held in demand deposit accounts. Of the amounts detailed below, \$287,255 at September 30, 2009 was FDIC insured. Accordingly, the deposits are exposed to custodial credit risk.

#### Restricted cash and cash equivalents:

Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development loans	\$ 2,163,848
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	197,214
Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI	26,430
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	832,543
Other depository accounts reserved for various purposes	<u>170,571</u>
	<u>\$ 3,390,606</u>

# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Financial Statements September 30, 2009

### (4) Loans Receivable

NMHC makes loans for the specific purpose of providing residents of the Northern Mariana Islands with approved low-cost housing. The loans have terms from ten to thirty-three years in duration at interest rates of 4.5% to 12%. Loans are restricted to ninety percent (90%) of the appraised value of the property or the purchase price, whichever is lower. For construction loans, the purchase price of the property is defined as the value of the land plus the estimated cost of construction.

Major classifications of economic development loans as of September 30, 2009 are as follows:

General	\$ 753,345
Direct family home loans	3,122,978
HOME Investment Partnerships Act grant	3,632,866
Housing construction	453,397
Tinian turnkey	531,440
Home revenue bond	80,370
Section 8	166,063
Housing preservation grant	<u>33,020</u>
Loan principal receivable	8,773,479
Less allowance for loan losses	<u>(6,565,884)</u>
Net loans receivable	\$ <u>2,207,595</u>

Maturities of the above principal balances subsequent to September 30, 2009 will be as follows:

Fully matured and others	\$ 537,815
1 - 6 months	65,275
7 - 18 months	117,431
19 months - 3 years	143,733
After 3 years	<u>1,343,341</u>
	\$ <u>2,207,595</u>

### Allowance for Loan Losses

An analysis of the change in the allowance for loan losses is as follows:

Balance - beginning of year	\$ 6,218,333
Provision for loan losses	<u>347,551</u>
Balance - end of year	\$ <u>6,565,884</u>

# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Financial Statements September 30, 2009

### (5) Due from CDA

Due from CDA resulted from loans made by CDA to the former MIHA. The year end balances are summarized as follows:

Housing construction loan. On February 3, 1999, CNMI Public Law 11-57 authorized NMHC to write off the portion of this loan not considered recoverable through sale of housing construction units. Interest has therefore been suspended pending sales of the units.	\$ 456,611
Operating expenses	<u>54,045</u>
	<u>\$ 510,656</u>

### (6) Property and Equipment

Property and equipment consist of the following at September 30, 2009:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2009</u>
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	\$ 2,467,456	\$ 13,414	\$ -	\$ 2,480,870
Section 8 Koblerville Housing	30 years	1,937,998	6,076	-	1,944,074
Section 8 Rota Housing	30 years	1,176,787	-	-	1,176,787
Section 8 Tinian Housing	30 years	1,065,154	4,871	-	1,070,025
Section 8 Housing Phase II	30 years	635,929	-	-	635,929
Section 8 Housing Phase I	30 years	<u>600,515</u>	<u>-</u>	<u>-</u>	<u>600,515</u>
		<u>7,883,839</u>	<u>24,361</u>	<u>-</u>	<u>7,908,200</u>
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	478,231	-	-	478,231
Equipment and computers	3 - 8 years	535,862	28,515	-	564,377
Vehicles	3 years	<u>150,477</u>	<u>-</u>	<u>-</u>	<u>150,477</u>
		<u>3,988,061</u>	<u>28,515</u>	<u>-</u>	<u>4,016,576</u>
		11,871,900	52,876	-	11,924,776
Less accumulated depreciation		<u>(9,593,978)</u>	<u>(395,638)</u>	<u>-</u>	<u>(9,989,616)</u>
		<u>\$ 2,277,922</u>	<u>\$ (342,762)</u>	<u>\$ -</u>	<u>\$ 1,935,160</u>

NMHC also holds title to approximately 339,000 square meters of land acquired at no cost which was originally held for development of low income rental housing or resale to low income families for construction of housing. The land is recorded on NMHC's financial statements at estimated fair value of \$9,747,313 at September 30, 2009. Public Law 6-34 provides NMHC, subject to certain terms and conditions, the authority to lease for commercial development certain land situated in the North Garapan Subdivision Annex No. 2. NMHC is currently in the process of promoting the development of the abovementioned land to allow NMHC to meet its future commitments.

# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Financial Statements September 30, 2009

### (7) Settlement Expense

In November and December 2006, thirty-five homeowners filed a lawsuit against NMHC, architects, the construction manager and the contractor for deficiencies in the design and construction of homes in the Tottotville Subdivision. On February 25, 2009, NMHC entered into settlement agreements with the thirty-five homeowners for \$6,200 each to remove NMHC from the lawsuit. NMHC paid a total of \$286,062 of settlement fees including legal and professional fees which is recorded as settlement expense in the accompanying statements of revenues, expenses and changes in net assets.

### (8) Contingencies

NMHC participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$1,179,101 have been set forth in NMHC's Single Audit Report for the year ended September 30, 2009. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

NMHC has entered into an agreement with the USDA Rural Development (RD) (formerly the U.S. Farmers Home Administration or FmHA) whereby NMHC assists borrowers in obtaining RD financing for housing construction. The agreement requires NMHC to guarantee any deficiency in foreclosure proceeds should borrowers default on the RD loans. As security under the agreement, NMHC is required to maintain an escrow account of \$286,436. Beginning September 30, 1993, the amount in the escrow account will be reduced each year by the product of \$1,500 multiplied by the number of loans paid in full for that particular year, or 4% of the total outstanding balance, whichever is less. As of September 30, 2009 NMHC has guaranteed outstanding loans of approximately \$14,779,148. As of September 30, 2009 the balance in the escrow account was \$259,793. This amount is included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2009 the amount of defaulted loans related to the agreement was \$5,893,782. Of the total defaulted loans, the amount with demand notices from RD was \$1,260,205 at September 30, 2009 for which NMHC recorded a liability included in "provision for loan guaranty" in the accompanying financial statements. NMHC management cannot presently determine if an additional liability for the remaining defaulted loans of \$4,633,577 at September 30, 2009 may be incurred and, accordingly, no provision for any liability or potential loss that may result from this matter has been recorded in the accompanying financial statements.

In June 2008, NMHC entered into an agreement with RD to resolve defaulted RD loans. The agreement has been established to outline the steps and mutually agreed-upon terms in liquidating defaulted RD loans. The agreement encompasses forty-eight seriously delinquent guaranteed loans totaling \$3,126,371. However, this number may decline if any accounts cure before the related auction dates. On June 5, 2008, NMHC's Board of Directors approved a resolution to restrict \$1,521,923 of NMHC's funds for the purpose of paying any amount due and payable to RD pursuant to the agreement. The eventual outcome of this matter cannot be presently determined and, accordingly, no provision for any liability or potential loss that may result from this matter has been recorded in the accompanying financial statements.



# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Financial Statements September 30, 2009

### (8) Contingencies, Continued

As of September 30, 2009, the total funds deposited in savings accounts which are reserved for RD loans amounted to \$1,904,055. This amount is included in the “restricted cash and cash equivalents” in the accompanying financial statements.

NMHC entered into a loan agreement and related loan purchase agreement with a savings and loan in the CNMI whereby the savings and loan will make available up to \$6,000,000 for housing loans. Under the agreements, NMHC is responsible for administering the loan purchase program and the savings and loan agrees to purchase qualified loans from NMHC. NMHC guarantees the first 25% of the principal balance plus interest on each loan sold to the savings and loan. As of September 30, 2009, NMHC was contingently liable for \$1,102,655 of the balance of loans purchased by the savings and loan. In addition, NMHC is required to maintain an account at the savings and loan equal to the lesser of 5% of all loans sold to the savings and loan or \$100,000. The balance in the account at September 30, 2009 was \$26,430 which is included in “restricted cash and cash equivalents” in the accompanying financial statements.

NMHC also has similar arrangements with other financial institutions whereby NMHC guarantees a varying percentage of loans issued by the banks for housing construction. At September 30, 2009 NMHC was contingently liable to these institutions for \$2,463,509. As of September 30, 2009 the total defaulted loans related to these arrangements was \$-0-.

### (9) Risk Management

NMHC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. NMHC has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NORTHERN MARIANAS HOUSING CORPORATION  
(A DIVISION OF THE  
COMMONWEALTH DEVELOPMENT AUTHORITY)

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2009

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Northern Marianas Housing Corporation:

We have audited the financial statements of the Northern Marianas Housing Corporation (NMHC), as of and for the year ended September 30, 2009, and have issued our report thereon dated October 18, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NMHC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NMHC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NMHC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 100) to be significant deficiencies in internal control over financial reporting as items 2009-1 through 2009-3.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether NMHC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of NMHC in a separate letter dated October 18, 2010.

NMHC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit NMHC's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLC*

October 18, 2010



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON  
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
Northern Marianas Housing Corporation:

Compliance

We have audited the compliance of the Northern Marianas Housing Corporation (NMHC) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. NMHC's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 100). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of NMHC's management. Our responsibility is to express an opinion on NMHC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NMHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on NMHC's compliance with those requirements.

As described in items 2009-4 through 2009-40 in the accompanying Schedule of Findings and Questioned Costs, NMHC did not comply with requirements regarding allowable costs/cost principles, Davis-Bacon Act, eligibility, equipment and real property management, procurement and suspension and debarment, reporting, subrecipient monitoring and special tests and provisions that are applicable to its CFDA 14.182 Section 8 New Construction and Substantial Rehabilitation, CFDA 14.225 Community Development Block Grants/Special Purpose Grants/Insular Areas and CFDA 14.871 Section 8 Housing Choice Vouchers programs. Compliance with such requirements is necessary, in our opinion, for NMHC to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, NMHC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

#### Internal Control Over Compliance

The management of NMHC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered NMHC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NMHC's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in NMHC's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in the entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2009-4 through 2009-40 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected in the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2009-15, 2009-20 and 2009-34 to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of NMHC as of and for the year ended September 30, 2009, and have issued our report thereon dated October 18, 2010. Our audit was performed for the purpose of forming our opinion on NMHC's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

NMHC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit NMHC's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLC*

October 18, 2010

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2009

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
Direct Programs:		
U.S. Department of Housing and Urban Development:		
Section 8 New Construction and Substantial Rehabilitation:		
TQ10-0011-005 Mihaville	14.182	\$ 533,749
TQ10-0016-004 Koblerville	14.182	303,708
TQ10-0006-004 Rota	14.182	108,635
TQ10-0011-001 Tinian	14.182	208,942
Subtotal CFDA #14.182		<u>1,155,034</u>
Community Development Block Grants/Special Purpose Grants/Insular Areas		
Tinian Shelter/Tinian Public Library Public Service	14.225	2,271
Garapan Central Market/Susupe Sports Complex	14.225	36,304
Tinian Amphitheater Phase I	14.225	137,000
Rota Walkway	14.225	60,175
Paupau MRR/NMI Japan Cultural Center	14.225	87,673
Tinian Amphitheater Phase II	14.225	738,393
Susupe Sports Complex	14.225	36,987
Marianas High School Building J	14.225	153,475
Capitol Hill 1.0 MG Reservoir Rehabilitation	14.225	96,854
Administrative Fee	14.225	178,960
Subtotal CFDA #14.225		<u>1,528,092</u>
Emergency Shelter Grants Program	14.231	52,874
Section 8 Housing Choice Vouchers	14.871	3,809,854
		<u>\$ 6,545,854</u>
Reconciliation of expenditures to Statement of Revenues, Expenses and Changes in Net Assets		
Federal award expenditures per above:		
U.S. Department of Housing and Urban Development		
Section 8 Housing Choice Vouchers		\$ 3,809,854
Section 8 New Construction and Substantial Rehabilitation		1,155,034
		<u>\$ 4,964,888</u>
Federal award expenditures per Statement of Revenues, Expenses and Changes in Net Assets		
U.S. Department of Housing and Urban Development		
Section 8 Housing Choice Vouchers:		
Section 8 rental		\$ 3,406,966
Utilities		179,376
Salaries and wages		150,299
Employee benefits		50,210
Travel		6,553
Professional fees		4,000
Other		12,450
		<u>3,809,854</u>
Section 8 New Construction and Substantial Rehabilitation		
Repairs and maintenance		825,214
Salaries and wages		107,666
Professional fees		96,599
Utilities		73,348
Employee benefits		36,452
Office rent		4,239
Other		11,516
		<u>1,155,034</u>
		<u>\$ 4,964,888</u>

See accompanying notes to schedule of expenditures of federal awards.



# NORTHERN MARIANAS HOUSING CORPORATION

## Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2009

### (1) Scope of Review

The Northern Marianas Housing Corporation (NMHC), a division of the Commonwealth Development Authority (CDA), was established under Public Law 5-37 as amended by Public Law 5-67. The purpose of NMHC is to develop and administer low cost residential housing in the CNMI. All significant operations of NMHC are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as NMHC's cognizant agency for the Single Audit.

### (2) Summary of Significant Accounting Policies

#### a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed, which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotment or grant award received. Disbursements made to subrecipients related to grant agreements are reported as expenditures. Disbursements made to subrecipients related to loan agreements are reported within applicable loan portfolios, and are subject to the Single Audit.

#### b. Subgrantees

Certain program funds are passed through NMHC to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantees outside of NMHC's control utilized the funds.

#### c. Funds Received

*U.S. Department of Housing and Urban Development - Community Development Block Grants/Special Purpose Grants/Insular Areas/Emergency Shelter Grants Program* - NMHC received these funds in a direct capacity in fiscal year 2009 and administers the funds and is responsible for ensuring compliance with laws and regulations.

*U.S. Department of Housing and Urban Development - Section 8 New Construction and Substantial Rehabilitation /Section 8 Housing Choice Vouchers* - NMHC records federal rental assistance as Section 8 income.

#### d. Indirect Cost Allocation

NMHC does not receive an indirect cost allocation.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2009

(3) Loan Funds

NMHC (formerly the Mariana Islands Housing Authority (MIHA)) received economic development loan funds from the former Northern Mariana Islands Economic Development Loan Fund pursuant to a Memorandum of Understanding transferring funds received under Section 702(c) of the Covenant to MIHA. These funds are used for a revolving fund for a special program of low interest housing loans for low-income families. As of September 30, 2009, \$1,229,753 (net of the related allowance for doubtful accounts of \$2,933,266 and out of total NMHC net loans receivable of \$2,207,595) of loans originating from this revolving fund were outstanding.

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs Year Ended September 30, 2009

### A. SUMMARY OF AUDITORS' RESULTS

#### *Financial Statements*

- |    |  |               |
|----|--|---------------|
| 1. | Type of auditors' report issued:   | Unqualified   |
|    | Internal control over financial reporting:   |               |
| 2. | Material weakness(es) identified?  | Yes           |
| 3. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes           |
| 4. | Noncompliance material to the financial statements noted?                                | None reported |

#### *Federal Awards*

- |                                       |  |           |
|---------------------------------------|--|-----------|
| Internal control over major programs: |  |           |
| 5.                                    | Material weakness(es) identified?  | Yes       |
| 6.                                    | Significant deficiency(ies) identified that is not considered to be a material weakness?                               | Yes       |
| 7.                                    | Type of auditors' report issued on compliance for major programs:  | Qualified |
| 8.                                    | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes       |
| 9.                                    | NMHC's major programs were as follows:   |           |

#### CFDA

#### Number

#### Federal Program

- |     |  |           |
|-----|--|-----------|
|     | 14.182 Section 8 New Construction and Substantial Rehabilitation   |           |
|     | 14.225 Community Development Block Grants/Special Purpose Grants/Insular Areas   |           |
|     | 14.871 Section 8 Housing Choice Vouchers   |           |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$300,000 |
| 11. | NMHC qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?                                       | No        |

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2009-1	Loans Receivable	11
2009-2	Land	12
2009-3	Loan Guarantee Agreements	13

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2009-4 - 11	14.182	Eligibility	\$ 40,603	14 - 34
2009-12 - 14	14.182	Reporting	\$ -	35 - 40
2009-15 - 17	14.182	Special Tests and Provisions	\$ 131,450	41 - 46
2009-18	14.225	Davis-Bacon Act	\$ -	47 - 48
2009-19	14.225	Equipment and Real Property Management	\$ -	49 - 50
2009-20	14.225	Procurement and Suspension and Debarment	\$ 204,830	51 - 53
2009-21	14.225	Subrecipient Monitoring	\$ -	54 - 55
2009-22	14.225	Special Tests and Provisions	\$ -	56
2009-23 - 24	14.871	Allowable Costs/Cost Principles	\$ 51,936	57 - 58
2009-25 - 31	14.871	Eligibility	\$ 48,212	59 - 78
2009-32	14.871	Procurement and Suspension and Debarment	\$ 5,738	79 - 80
2009-33	14.871	Reporting	\$ 5,650	81 - 84
2009-34 - 38	14.871	Special Tests and Provisions	\$ 136,757	85 - 98
2009-39 - 40	Nonmajor Programs	Special Tests and Provisions	\$ -	99 - 100

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Loans Receivable

Finding No. 2009-1

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis and that actions are taken to address delinquencies.

Condition: An analysis of NMHC's past due loans was performed to determine the propriety of the allowance for loan losses as of September 30, 2009. This analysis revealed that loans, including interest, which are over one hundred twenty days past due amounted to \$5,470,625 or 54.92% of total loans and interest receivable outstanding of \$9,961,865 as of September 30, 2009.

Cause: The cause of the above condition is the increase in past due loans.

Effect: The effect of the above condition is the increased possibility of loan losses due to borrower nonpayment.

Recommendation: We recommend that follow-up procedures be adhered to. We recommend that evaluations be performed for these loans and a corrective action plan be developed and documented. Future results may be compared against this plan and actions taken by management as deemed necessary. Legal action should be considered for those loans considered unlikely to be serviceable by the borrower.

Prior Year Status: NMHC's significant past due loans was reported as a finding in the Single Audits of CDA for fiscal years 2006 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Roger Dris, Chief Accountant and Jesse Palacios, Manager, Mortgage & Credit Division

**Corrective Action:** NMHC will perform a detailed review of the adequacy of its reserve for seriously defaulted loans and guaranteed loans for these financial institutions and assess the need to provide additional reserves for defaulted loans based on the appraisal value of the property and establish a policy that supports reasonable allowance calculations.

**Proposed Completion Date:** Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Land

Finding No. 2009-2

Criteria: Long lived assets should be reported at the lower of carrying amount or fair value. A review of valuations of real property should be periodically performed by management and adjustments should be made to reflect the lower of the carrying amount or fair market value.

Condition: As of September 30, 2009, NMHC has eleven parcels of land with recorded values aggregating \$9,747,313. The last appraisal of the eleven parcels occurred during fiscal year 2003. However, a November 2008 appraisal of two lots which a carrying value of \$256,000 resulted in an \$84,000 decrease in recorded values. Management did not perform an evaluation of the carrying values of the remaining lots. This matter was corrected through a proposed audit adjustment in fiscal year 2008.

Cause: The cause of the above condition is the lack of established policies and procedures to periodically review the recorded values of real property and the high cost of obtaining appraisal services.

Effect: The effect of the above condition is a potential misstatement of land.

Recommendation: We recommend that NMHC ensure that long-lived assets are reported at the lower of carrying amount or fair value. Additionally, we recommend that NMHC establish policies and procedures to periodically evaluate the carrying values of long-lived assets.

Prior Year Status: The lack of established policies and procedures of periodic review of recorded values of real property and the high cost of obtaining appraisal services was reported as a finding in the Single Audits of CDA for fiscal years 2006 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Roger Dris, Chief Accountant and Jesse Palacios, Manager, Mortgage & Credit Division

**Corrective Action:** NMHC will establish policies and procedures for the periodic review of recorded values of real property and obtain an appraisal once every two years.

**Proposed Completion Date:** Ongoing

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

### Loan Guarantee Agreements

#### Finding No. 2009-3

**Criteria:** An effective system of internal control includes procedures to ensure that contingent liabilities are assessed and reviewed for probable losses.

**Condition:** NMHC has existing loan guarantee and purchase agreements with certain financial institutions. As of September 30, 2009, NMHC's related loan guarantees amounted to \$18,345,312. Of the total, approximately \$5,893,782 is delinquent and past due. NMHC has received demand notices for and has recorded a related reserve of \$1,260,205. However, NMHC is unable to determine if an additional reserve should be established due to limited information provided by the financial institutions. NMHC is currently working with the institutions to obtain sufficient information to determine a better estimate of the reserve for loan guarantees.

**Cause:** The cause of the above condition is the lack of established policies and procedures in assessing the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses.

**Effect:** The effect of the above condition is the possible misstatement of the reserve for loan guaranty and related accounts.

**Recommendation:** We recommend that NMHC ensure that the reserve for guaranteed loans is assessed and reviewed for adequacy. Further, we recommend that NMHC establish policies and procedures to assess the adequacy of the reserve for guaranteed loans, both past due and current. Additionally, we recommend that NMHC continue to obtain sufficient information from financial institutions about the status of defaulted loans and determine which of the defaulted loans will likely result in payment or settlement.

**Prior Year Status:** The lack of established policies and procedures to assess and review the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses was reported as a finding in the Single Audits of CDA for fiscal years 2006 through 2008.

#### Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Roger Dris, Chief Accountant and Jesse Palacios, Manager, Mortgage & Credit Division

**Corrective Action:** NMHC will ensure that the reserve for guaranteed loans is assessed and reviewed for adequacy. NMHC will also establish internal policies and procedures to assess the value of its properties using either comparables of properties sold or leased, or obtaining information from the CNMI Recorder's Office. These assessments and conclusions shall be documented and made readily available. The Accounting Division will work closely with the Loan Division in obtaining appraisals once every two years per management's recommendation.

**Proposed Completion Date:** Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

Finding No.: 2009-4  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Eligibility  
Questioned Costs: \$8,130

Criteria: The amount of federal assistance paid on behalf of a family is calculated using the family's annual income less allowable deductions. Owners must verify all deductions claimed by the tenant/applicant to determine the level of federal assistance.

Condition: During examination of the files of fifty-seven tenants receiving housing assistance, the following were noted:

1. Deductions claimed include allowances for dependents that are not the legal children of the household head/co-head. Either the household head and/or co-head are in a guardian/caretaker capacity based on a General/Special Power of Attorney (GPA/SPA) executed by the legal/biological parents of the dependent or the relationship of the household head/co-head to the dependent is not evident. We were unable to determine if NMHC performed further verification in addition to obtaining a GPA/SPA to ensure that such are valid dependents. Details are as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Dependents Claimed that are not Legal Children (Household Member Ref. #)</u>	<u>Allowance Claimed</u>	<u>Housing Assistance Payment (HAP) Amount</u>
M01	12/01/08	10/01/08	4, 5, 6, 7, 8, 9	\$ 2,880	\$ 1,108
M24	09/01/09	06/01/09	4	\$ 480	991
M34	11/01/08	09/01/08	3	\$ 480	1,014
M47	02/01/09	11/01/08	8	\$ 480	1,108
K06	11/01/08	08/01/08	4	\$ 480	847
K16	10/01/08	08/01/08	5, 6, 7, 8	\$ 1,920	700
K20	06/01/09	11/01/08	5	\$ 480	914
K22A	07/01/09	04/01/09	4	\$ 480	775
K23	12/01/08	08/01/08	5, 6	\$ 960	<u>673</u>
					<u>\$ 8,130</u>

2. Deductions claimed include an allowance for a full-time student. There was no third party verification in file evidencing the dependent is a full time student. Details are as follows:



# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-4, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Eligibility  
 Questioned Costs: \$8,130

### Condition, Continued:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Dependents Claimed that are not Legal Children (Household Member Ref. #)</u>	<u>Allowance Claimed</u>	<u>HAP Amount</u>
M01	12/01/08	10/01/08	3	\$ 480	\$ 1,108
K06	11/01/08	08/01/08	4	\$ 480	<u>847</u>
Total					1,955
Less amount already questioned in previous condition					<u>(1,955)</u>
Questioned costs this condition					\$ <u>      -</u>

3. Deductions claimed include a medical allowance. We were unable to agree the medical allowance claimed to support in the tenant file. Details are as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Dependents Claimed that are not Legal Children (Household Member Ref. #)</u>	<u>Allowance Claimed</u>	<u>HAP Amount</u>
K06	11/01/08	08/01/08	4	\$ 480	\$ 847
Less amount already questioned in previous condition					<u>(847)</u>
Questioned costs this condition					\$ <u>      -</u>

Cause: The cause of the above condition is the lack of adequate policies and procedures to ensure that deductions claimed by the tenant/applicant are verified.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$8,130.

Recommendation: We recommend that NMHC ensure that deductions claimed are verified and agreed to relevant supporting documentation.

Prior Year Status: The lack of adequate policies and procedures to ensure deductions claimed by tenants are verified and agreed to relevant supporting documentation was reported as a finding in the Single Audit of CDA for fiscal year 2008.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-4, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Eligibility  
Questioned Costs: \$8,130

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure that only general Powers of Attorney from the Superior Court are accepted. We will no longer accept signed/notarized verifications from the biological parent or household member. In addition, NMHC will ensure that all deductions claimed are verified by a third party.

**Proposed Completion Date:** Immediately

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-5  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Eligibility  
 Questioned Costs: \$8,879

**Criteria:** Owners must use verification methods that are acceptable to HUD. The owner is responsible for determining if the verification documentation is adequate and credible. HUD accepts three methods of verification. These are, in order of acceptability, third party verification, review of documents, and family certification. When third party verification is not available, owners must document, in the file, efforts made to obtain the required verification and the reason if the verification was not obtained. The owner must include the following documents in the applicant's or tenant's file:

1. A written note to file explaining why third party verification is not possible; or
2. A copy of the date-stamped original request that was sent to the third party;
3. Written notes or documentation indicating follow-up efforts to reach the third party to obtain verification; and
4. A written note to the file indicating that the request has been outstanding without a response from the third party.

**Condition:** During examination of fifty-seven tenant files, the following were noted:

1. The following tenant/applicant reported other income. No third party verification documentation was in file. However, we did note the presence of affidavit/notarized statements signed by the tenant/applicant. Further, documentation as to why a third party verification is not possible or documentation indicating that efforts were made to obtain third party verifications was not evident in file. Details are as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member #</u>	<u>Other Income Reported (Monthly Income)</u>	<u>HAP Amount</u>
M01	12/01/08	10/01/08	Head	\$ 50	\$ 1,108
M22	07/01/09	05/01/09	Head	\$ 20	1,108
M36	12/01/08	09/01/08	Head	\$ 50	1,014
M40	04/01/09	09/01/08	Head	\$ 20	1,014
K08	06/01/09	06/01/09	Head	\$ 50	914
T06	03/01/09	08/01/08	Head	\$ 50	875
T10	04/01/09	08/01/08	Head	\$ 60	1,069
T16	07/01/09	04/01/09	Head	\$ 50	984
Total					8,086
Less amount already questioned in previous condition					(1,108)
Questioned cost this condition					\$ <u>6,978</u>

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-5, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Eligibility  
 Questioned Costs: \$8,879

### Condition, Continued:

2. For the following income reported by the applicant/tenant, income included on HUD 50059 did not agree to the related third party verification obtained:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income Included in Form HUD 50059</u>	<u>Income Per Third Party Verification</u>	<u>Variance</u>	<u>HAP Amount per HUD 50059</u>	<u>HAP Amount based on Income per Verification</u>	<u>Overpayment</u>
M20	04/01/09	11/01/08	\$ 2,600	\$ 1,200	\$ 1,400	\$ 1,108	\$ 1,108	\$ -
M42	07/01/09	07/01/09	\$ 7,410	\$ 12,645	\$ (5,235)	\$ 601	\$ 475	\$ 126
Total								\$ 126

3. For the following, assets were reported by applicant/tenant; however, a third party verification could not be located in file:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member #</u>	<u>Asset Type</u>	<u>HAP Amount</u>
K01	07/01/09	11/01/08	Head	Land	\$ 791
T14	05/01/09	08/01/08	Head	Land	\$ 984
					\$ 1,775

Cause: The cause of the above condition is failure to obtain adequate third party verification and failure to document instances when third party verification cannot be obtained.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$8,879.

Recommendation: We recommend that adequate third party verification is obtained and, when third party verification cannot be obtained, NMHC should ensure that efforts to obtain the required documentation and the reason the verification was not obtained are documented in the tenant file or equivalent.

Prior Year Status: Failure to obtain adequate third party verification and failure to document instances when third party verification cannot be obtained was reported as a finding in the Single Audit of CDA for fiscal year 2008.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-5, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Eligibility  
Questioned Costs: \$8,879

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure adherence to its eligibility documentation requirements.

**Proposed Completion Date:** Ongoing

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-6  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Eligibility  
 Questioned Costs: \$12,869

**Criteria:** Owners must include verification documentation in the tenant file. Further, NMHC accepts the following notarized statements or signed affidavits from the tenant/applicant as support of income and assets for all adult members of the household:

1. Affidavit as to assets
2. Statement of unemployment
3. Affidavit of zero income of adult member
4. Affidavit of child support

**Condition:** During examination of fifty-seven tenant files, the following were noted:

Unit No.	Month Tested	Re-certification Effective	Household Member #	Documents Not Found in Tenant File	HAP Amount
M04	11/01/08	09/01/08	4	Statement of unemployment, Affidavit of zero income, Affidavit as to assets	\$ 1,108
M08	03/01/09	09/01/08	Head	Affidavit of zero income	934
M18	12/01/08	09/01/08	Head, 2	Statement of unemployment	683
M38	04/01/09	09/01/08	3	Statement of unemployment, Affidavit of zero income, Affidavit as to assets	888
M44	08/01/09	02/01/09	Head	Notice of disposition from NAP for food stamp benefits of \$206/mo.	980
K16	10/01/08	08/01/08	3	Statement of unemployment, Affidavit of zero income, Affidavit as to assets	700
K19A	03/01/09	08/01/08	Head	Statement of unemployment, Affidavit of zero income, Affidavit as to assets, Certification of asset disposition	775
K22A	07/01/09	04/01/09	2	Statement of unemployment, Affidavit of zero income, Affidavit of child support	775
R02	04/01/09	09/03/08	Head	Original copy of affidavit of zero income	953
R16	09/01/09	11/01/08	2	Original copy of Affidavit as to assets	690
T02	03/01/09	08/01/08	Head	Affidavit of zero income	1,007
T06	03/01/09	08/01/08	Head	Affidavit of zero income	875
T12	06/01/09	12/01/08	Head	Original copy of employment verification, Notice of disposition from NAP for food stamp benefits of \$44/mo.	984
T16	07/01/09	04/01/09	Head	Affidavit of zero income	984
T17	11/01/08	09/01/08	Head	Affidavit of zero income	1,024
T20	08/01/09	08/01/09	Head	Affidavit of zero income	984
					Total
					14,344
					Less amount already questioned in previous finding
					(1,475)
					Questioned costs this finding
					\$ 12,869

**Cause:** The cause of the above condition is the lack of adequate monitoring procedures to ensure that required documentation is obtained and filed.

**Effect:** The effect of the above condition is inadequate documentation of the eligibility determination and questioned costs of \$12,869.

**Recommendation:** We recommend that all relevant documentation supporting eligibility determinations are obtained and included in file.

**Prior Year Status:** The lack of adequate monitoring procedures to ensure that required documentation is obtained and filed was reported as a finding in the Single Audit of CDA for fiscal year 2008.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-6, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Eligibility  
Questioned Costs: \$12,869

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure that all documentation and verifications for adult household members are obtained and filed.

**Proposed Completion Date:** Immediately

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-7  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Eligibility  
 Questioned Costs: \$904

Criteria: Adult members of a family must sign consent forms as required verification documents, so the owner can verify sources of family income and family size. The owner must consider a family ineligible if adult members refuse to sign applicable consent and verification forms. Consent forms must be signed by:

1. The head of household (regardless of age);
2. The spouse or co-head of household (regardless of age); and
3. Any other family member who is 18 years old or older.

NMHC uses the “Document Package for Applicant’s/Tenant’s Consent to the Release of Information” (the Document Package) form to document compliance with this requirement.

Condition: During examination of fifty-seven tenant files, the following were noted:

1. The “Document Package” was not signed by one or more adult members of the applicant/tenant. Details are as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	Not signed by Household <u>Member #</u>	<u>HAP Amount</u>
M04	11/01/08	09/01/08	4	\$ 1,108
K11	01/01/09	01/01/09	2	904
K16	10/01/08	08/01/08	3	700
K19A	03/01/09	08/01/08	Head	<u>775</u>
Total				3,487
Less amount already questioned in previous finding				<u>(2,583)</u>
Questioned cost this finding				\$ <u>904</u>

2. The “Document Package” was not signed by the head of household prior to the effective date of certification. Details as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Signature Date</u>	<u>HAP Amount</u>
M44	08/01/09	02/01/09	09/09/09	\$ 980
Less amount already questioned in previous finding				<u>(980)</u>
Questioned cost this finding				\$ <u>-</u>



NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-7, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Eligibility  
Questioned Costs: \$904

Criteria, Continued:

3. The "Document Package" could not be located:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
M47	02/01/09	11/01/08	\$ 1,108
	Less amount already questioned in previous finding		<u>(1,108)</u>
	Questioned cost this finding		\$ _____

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that required documentation is obtained and filed.

Effect: The effect of the above condition is inadequate documentation supporting eligibility determination and requirements and questioned costs of \$904.

Recommendation: We recommend that relevant documentation supporting eligibility determination is obtained and included in file.

Prior Year Status: The lack of adequate monitoring procedures to ensure that required documentation is obtained and filed was reported as a finding in the Single Audit of CDA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure that documents regarding eligibility requirements are maintained.

**Proposed Completion Date:** Ongoing

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-8  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Eligibility  
 Questioned Costs: \$6,228

**Criteria:** Owners must conduct a certification/re-certification of family income and composition (a) prior to move-in; (b) at least annually; and (c) if there are changes in income, allowances or family characteristics reported between annual re-certification. Owners must then recompute the tenant rents and assistance payments, if applicable, based on information gathered.

NMHC uses a "Certification/Re-certification Interview Sheet" to document certifications and re-certifications performed. NMHC also uses a "Tenant Obligation to Report Interim Change" form to be signed by tenants. A Housing Assistance Payment (HAP) contract and lease agreement is signed by the tenant and NMHC.

**Condition:** During examination of fifty-seven tenant files, the following were noted:

- The following annual re-certifications were not performed in a timely manner:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Previous Annual Certification</u>		<u>Current Annual Certification</u>	
		<u>Effective Date</u>	<u>Date Performed</u>	<u>Effective Date</u>	<u>Date Performed</u>
M01	12/01/08	10/01/07	07/17/07	10/01/08	08/12/08
M22	07/01/09	05/01/08	01/15/08	05/01/09	04/14/09
M38	04/01/09	09/01/07	07/06/07	09/01/08	08/07/08
K01	07/01/09	11/01/07	08/06/07	11/01/08	09/22/08
K08	06/01/09	06/01/08	02/29/08	06/01/09	04/13/09
K22A	07/01/09	04/01/08	12/27/07	04/01/09	02/23/09

- The following certification/re-certification interview sheets were either (a) not completed; (b) incomplete; or (c) not properly filled out:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Effective Date of Certification Per Certification/Re-certification Interview Sheet</u>	<u>Sections of the Interview Sheet that are Incomplete/Not Completed</u>
T04	11/01/08	08/01/08	3, 4, 6
T06	03/01/09	08/01/08	2, 3
T12	06/01/09	12/01/08	2, 6
T14	05/01/09	08/01/08	2, 3

- The certification/re-certification interview sheet for one tenant was not signed prior to the effective date:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Effective Date of Certification Per Certification/Re-certification Interview Sheet</u>	<u>Signature Date</u>
M44	08/01/09	02/01/09	09/09/09

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-8, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Eligibility  
 Questioned Costs: \$6,228

Condition, Continued:

4. For the following, certification/re-certification interview sheets could not be located in file:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Effective Date of Certification Per Form HUD 50059</u>	<u>HAP Amount</u>
K25	01/01/09	01/01/09	\$ 902
K27	08/01/09	07/01/09	820
R30	12/01/08	08/01/08	<u>953</u>
			\$ <u>2,675</u>

5. The HUD 50059, certification/re-certification interview sheet, verification documents supporting income, assets and allowances and other documents supporting eligibility for the following could not be located in file:

<u>Unit No.</u>	<u>Period Tested</u>	<u>HAP Amount</u>
R22	06/01/09	\$ 626
R27	05/01/09	<u>953</u>
		\$ <u>1,579</u>

6. The tenant obligation to report interim change form was either not in file, not signed by the head of household or spouse, or signed after the effective date of certification, for the following:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Findings Noted</u>	<u>HAP Amount</u>
M25	01/01/09	09/12/08	None in tenant file	\$ 1,014
M44	08/01/09	02/01/09	Signed by Head on 09/09/09	980
K16	10/01/08	08/01/08	Not signed by Head	700
R02	04/01/09	09/03/08	None in tenant file	953
R16	09/01/09	11/01/08	Not signed by Head	690
T12	06/01/09	12/01/09	Not signed by Head	<u>984</u>
			Total	5,321
			Less amount already questioned in previous finding	<u>(4,307)</u>
			Questioned cost this finding	\$ <u>1,014</u>

7. The HUD 50059 and HAP contract and lease amendment effective for the applicable certification/re-certification could not be located in file, for the following:

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-8, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Eligibility  
 Questioned Costs: \$6,228

### Condition, Continued:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
R02	04/01/09	09/03/08	\$ 953
R16	09/01/09	11/01/08	<u>690</u>
Total			1,643
Less amount already questioned in previous finding			<u>(1,643)</u>
Questioned cost this finding			\$ <u>      -</u>

8. The HAP contract and lease agreement was not signed by either NMHC or the tenant for the following:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
M01	12/01/08	10/01/08	\$ 1,108
M13	12/01/08	09/01/08	960
M44	08/01/09	02/01/09	980
K19A	03/01/09	08/01/08	<u>775</u>
Total			3,823
Less amount already questioned in previous finding			<u>(2,863)</u>
Questioned cost this finding			\$ <u>  960  </u>

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that required certification/re-certification and related forms are performed and filed in a timely manner.

Effect: The effect of the above condition is noncompliance with program eligibility requirements and questioned costs of \$6,228.

Recommendation: We recommend NMHC establish adequate monitoring procedures to ensure that required certification/re-certification and related forms are performed and filed in a timely manner.

Prior Year Status: The lack of adequate monitoring procedures to ensure that required certification/re-certification and related forms are performed and filed in a timely manner was reported as a finding in the Single Audit of CDA for fiscal year 2008.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-8, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Eligibility  
Questioned Costs: \$6,228

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:**

Condition 1 - NMHC will ensure that annual re-certifications are performed in a timely manner and within twelve months of the last certification/re-certification.

Condition 2 - NMHC will ensure that certification/re-certification interview sheets are completed and filed.

Condition 3 - NMHC will ensure that the certification/re-certification interview sheet is signed prior to the effective date and filed.

Condition 4 - NMHC will ensure that certification/re-certification interview sheets are filed.

Condition 5 - NMHC will ensure that the HUD 50059, certification/re-certification interview sheet, verification documents supporting income, assets and allowances and other documents supporting eligibility are completed and filed.

Condition 6 - NMHC will ensure that the tenant obligation to report interim change form is completed, signed prior to the effective date of certification and filed.

Condition 7 - NMHC will ensure that the HUD 50059, the HAP contract and the lease agreement are completed and filed.

Condition 8 - NMHC will ensure that the HAP contract and lease agreement are completed, signed and filed.

**Proposed Completion Date:** Immediately

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-9  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Eligibility  
 Questioned Costs: \$1,710

**Criteria:** Owners apply their occupancy standards before assigning the family to a unit. Owners should review family size and occupancy standards prior to completing required verifications so that if the property cannot accommodate the family, the owner may immediately inform the family of its ineligibility. Additionally, owners also compare family composition to occupancy standards when there is a change in family size. Owners should use the occupancy standards established for the property to determine whether the unit is still the appropriate size for the tenant.

**Condition:** During examination of fifty-seven tenant files, the assigned units for the following did not appear reasonable based on the size of the household/family:

<u>Unit No.</u>	<u>Period Tested</u>	<u>HUD 50059 Effective Date</u>	<u>Unit Size</u>	<u>No. of Household</u>	<u>HAP Amount</u>
M45	10/01/08	09/01/08	4	2	\$ 949
R12	07/01/09	07/01/09	4	2	761
T14	05/01/09	08/01/08	3	1	984
T20	08/01/09	08/01/09	3	1	<u>984</u>
Total					3,678
Less amount already questioned in previous finding					<u>(1,968)</u>
Questioned costs this finding					\$ <u>1,710</u>

Justification for the larger unit size assigned was not noted in file.

**Cause:** The cause of the above condition is the lack of adequate monitoring procedures to ensure that units assigned are in accordance with established occupancy standards.

**Effect:** The effect of the above condition is noncompliance with program eligibility requirements and questioned costs of \$1,710.

**Recommendation:** We recommend NMHC ensure strict adherence to established program occupancy standards.

**Prior Year Status:** The lack of adequate monitoring procedures to ensure that units assigned are in accordance with established occupancy standards was reported as a finding in the Single Audit of CDA for fiscal year 2008.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-9, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Eligibility  
Questioned Costs: \$1,710

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure that strict adherence to the established program occupancy standards are followed and applied during new admissions and unit transfers.

**Proposed Completion Date:** Immediately

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-10  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Eligibility  
 Questioned Costs: \$1,108

Criteria: To be eligible for Section 8 occupancy and housing assistance, applicants and tenants must meet the following requirements, among others:

1. Applicants must provide documentation of social security numbers (SSN) for family members at least 6 years of age and older. Adequate documentation includes a social security card issued by the Social Security Administration or other acceptable evidence of the SSN.
2. Only U.S. citizens or eligible noncitizens may receive assistance under Section 8 programs. All family members, regardless of age, must declare their citizenship or immigration status. Owners must obtain proof of citizenship. NMHC's policy is to require all family members to complete and sign a "Declaration of 214 Status" form and obtain copies of birth certificates or other acceptable evidence of citizenship and include such in file.

Condition: During examination of fifty-seven tenant files, the following were noted:

1. The HUD 50059 did not include information (name, birth date, SSN, etc.) for one household member, thus birth date and SSN could not be verified for the following:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
K01	07/01/09	5	\$ 791
K08	06/01/09	7	914
M22	07/01/09	6	<u>1,108</u>
Total			2,813
Less amount already questioned in previous finding			<u>(2,813)</u>
Questioned cost this finding			\$ <u>      </u> -

2. The birth certificate for one household member could not be located for the following:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
M27	04/01/09	2	\$ <u>1,108</u>

3. A copy of the social security card (or other acceptable evidence of the SSN) for the following household member(s) could not be located:



# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-10, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Eligibility  
 Questioned Costs: \$1,108

### Condition, Continued:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
R16	09/01/09	2	\$ 690
T14	05/01/09	Head	<u>984</u>
		Total	1,674
		Less amount already questioned in previous finding	<u>(1,674)</u>
		Questioned cost this finding	\$ <u>      -</u>

4. The completed and signed "Declaration of Section 214 Status" form for the following household members either could not be located or was signed after the effective date of certification:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
M27	04/01/09	8 - Signed 09/09/09	\$ 1,108
M44	08/01/09	6, 7	980
M47	02/01/09	8	1,108
K16	10/01/08	3, 5, 6, 7, 8	700
T14	05/01/09	Head	984
T16	07/01/09	5	<u>984</u>
		Total	5,864
		Less amount already questioned in previous finding	<u>(5,864)</u>
		Questioned cost this finding	\$ <u>      -</u>

Cause: The cause of the above condition is the lack of systematic filing of relevant documentation supporting social security numbers and citizenship.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$1,108.

Recommendation: We recommend NMHC ensure that relevant documentation supporting social security numbers and citizenship are included in file.

Prior Year Status: The lack of systematic filing of relevant documentation supporting social security numbers and citizenship was reported as a finding in the Single Audit of CDA for fiscal year 2008.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-10, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Eligibility  
Questioned Costs: \$1,108

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** Copies of supporting documents were provided and placed in file.

**Proposed Completion Date:** Immediately

Auditor Response: Copies of missing documents which were subsequently provided by the tenants to NMHC were not made available. Further, it appears that such documents were only requested from tenants upon our request and not during the eligibility determination.

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-11  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Eligibility  
 Questioned Costs: \$775

Criteria: Owners must develop a method to maintain documentation of the waiting list composition, application status, and actions taken. Further, owners should periodically analyze their waiting list policies and documentation procedures to determine whether an independent party reviewing the list and its supporting documentation could follow the actions taken, applicable preferences, and reasons why certain individuals may have been selected ahead of others on the waiting list. If not, the owner must make the waiting list format and associated practices more transparent.

Condition: During examination of fifty-seven tenant files, records of the waiting lists from which these tenants were selected were not provided for the following six new admissions:

<u>Unit No.</u>	<u>Period Tested</u>	Form HUD 50059 <u>Effective Date</u>	<u>Admission Date</u>	<u>HAP Amount</u>
M25	01/01/09	09/12/08	09/12/08	\$ 1,014
K09B	06/01/09	03/09/09	03/09/09	775
K11	01/01/09	01/01/09	08/28/08	904
R02	04/01/09	09/03/08	09/03/08	953
T06	03/01/09	08/01/08	06/03/08	875
T10	04/01/09	08/01/08	06/18/08	<u>1,069</u>
			Total	5,590
			Less amount already questioned in previous finding	<u>(4,815)</u>
			Questioned cost this finding	\$ <u>775</u>

We were unable to determine if selection of these tenants was in accordance with NMHC's admission policies in its administrative plan.

Cause: The cause of the above condition is the lack of established policies and procedures in maintaining documentation of the waiting list.

Effect: The effect of the above condition is noncompliance with waiting list management compliance requirements and questioned costs of \$775.

Recommendation: We recommend NMHC maintain records of waiting lists and file this information in the tenant file and/or in a central waiting list selection file.

Prior Year Status: The lack of established policies and procedures in maintaining documentation of the waiting list was reported as a finding in the Single Audit of CDA for fiscal year 2008.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-11, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Eligibility  
Questioned Costs: \$775

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure supporting evidence of the selection of applicants on the waiting list is based on the following:

1. The applicant is selected on a first-come first-serve basis depending on the unit size available.
2. The applicant is selected at NMHC's discretion such as a referral victim's family with documentation.
3. The applicant is selected with notations as to why the family was skipped on the waiting list; i.e. unable to contact or no security deposit available within the time frame given.
4. Upon selection of an applicant, the Housing Specialist will print a list of applicants for the unit size selected and place the document in the tenant's file for prospective move-in.

**Proposed Completion Date:** Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-12  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Reporting  
Questioned Costs: \$-0-

**Criteria:** A paper copy of form HUD-52670, Housing Owner's Certification and Application for Housing Assistance Payments, generated by the owner's TRACS software, bearing an original signature and consistent with the corresponding electronic transmission, must be kept on file by the owner for each monthly subsidy period that the owner receives assistance payments. The file must also include a signed copy of form HUD-52670-A part 1, Schedule of Tenant Assistance Payments Due and forms HUD-52671-A through D, Special Claims Worksheets (if applicable), generated by the owner's TRACS software, as supporting documentation.

Additionally, housing assistance payments requested per form HUD 52670 must be consistent with housing assistance payments per form HUD 50059 that's submitted electronically.

**Condition:** During examination of form HUD 52670 for assistance payments requested during fiscal year 2009, the HAP requested per HUD-52670 did not agree to the HAP per HUD-50059 for one unit:

<u>Unit No.</u>	<u>Period Tested</u>	<u>HAP per HUD 50059</u>	<u>HUD 50059 Effective Date</u>	<u>HAP per HUD 52670</u>	<u>Variance</u>
T12	June 2009	\$ 907	12/01/08	\$ 984	\$ (77)

**Cause:** The cause of the above condition is the lack of awareness of the above program requirements.

**Effect:** The effect of the above condition is noncompliance with program reporting requirements.

**Recommendation:** We recommend that program reporting requirements be followed.

**Prior Year Status:** The lack of awareness of the above program requirements was reported as a finding in the Single Audit of CDA for fiscal year 2008.

**Auditee Response and Corrective Action Plan:**

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC adjusted and returned the amount effective December 2008.

**Proposed Completion Date:** Immediately

**Auditor Response:** Documentation evidencing that adjustments have been made from the re-certification effective date was not provided.

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-13  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Reporting  
 Questioned Costs: \$-0-

**Criteria:** The form HUD-50059 must be submitted electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, move-in, or other change of unit for a family, among others. The signed HUD-50059 should be filed in the tenant file. Additionally, information reported in form HUD-50059 must be consistent with underlying records or supporting documentation.

The owner must sign and obtain the signature of the head, spouse, co-head, and all adult family members on the copy of the HUD-50059 certifying to the information that is transmitted to HUD or the Contract Administrator, whether the HUD-50059 was produced on site or received from a service provider. The signed HUD-50059 should be filed in the tenant file. In all cases, the computer generated HUD-50059 must include the required tenant signatures and owner signatures prior to submitting the data to the Contract Administrator or HUD. The owner may consider extenuating circumstances when an adult family member is not available to sign the HUD-50059; for example, an adult serving in the military, students away at college, adults who are hospitalized for an extended period of time, or a family member who is permanently confined to a nursing home or hospital. The owner must document in the file why the signature(s) was not obtained and, if applicable, when the signature(s) will be obtained.

**Condition:** During examination of form HUD 50059 for fifty-seven tenants, the following were noted:

1. The HUD-50059 for the following was not signed by one or more adult household members:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Not signed by Tenant (Household Member #)</u>
M01	10/01/08	2
M13	09/01/08	2
K06	08/01/08	3, 4
K16	08/01/08	3
K19A	08/01/08	1
K20	11/01/08	2, 3, 4
K22A	04/01/09	2
T04	08/01/08	2

2. Copies of HUD-50059 effective for the selected period were not signed by NMHC for the following:

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-13, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Reporting  
 Questioned Costs: \$-0-

### Condition, Continued:

Form HUD 50059		Form HUD 50059	
<u>Unit No.</u>	<u>Effective Date</u>	<u>Unit No.</u>	<u>Effective Date</u>
M01	10/01/08	K02B	10/01/08
M03	11/01/08	K04	09/01/08
M04	09/01/08	K06	08/01/08
M06	01/01/09	K08	06/01/09
M08	09/01/08	K09B	03/09/09
M10	11/01/08	K11	01/01/09
M13	09/01/08	K13	08/01/08
M16	11/01/08	K16	08/01/08
M18	09/01/08	K19A	08/01/08
M20	11/01/08	K20	11/01/08
M22	05/01/09	K22A	04/01/09
M24	06/01/09	K25	01/01/09
M25	09/12/08	K27	07/01/09
M27	10/01/08	R30	08/01/08
M29	06/01/09	T02	08/01/08
M30	09/01/08	T04	08/01/08
M32	09/01/08	T06	08/01/08
M34	09/01/08	T08	08/01/08
M36	09/01/08	T10	08/01/08
M40	09/01/08	T12	12/01/08
M42	07/01/09	T14	08/01/08
M44	02/01/09	T16	04/01/09
M45	09/01/08	T17	09/01/08
M47	11/01/08	T20	08/01/09
K01	11/01/08		

3. The HUD-50059 for the following was not signed by the tenant prior to the effective date of certification/re-certification:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Date Signed by Tenant</u>
M44	02/01/09	07/16/09
K01	11/01/08	12/09/09
K23	08/01/08	09/18/09

4. The original signed copy of the HUD-50059 could not be located in file.

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>HAP Amount</u>
R30	08/01/08	\$ 953

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-13, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Reporting  
Questioned Costs: \$-0-

Condition, Continued:

5. The form HUD-50059 for the following could not be located in file:

<u>Unit No.</u>	<u>Period Tested</u>	<u>HAP Requested Per Form HUD 52670</u>
R02	04/01/09	\$ 953
R16	09/01/09	\$ 690
R22	06/01/09	\$ 626
R27	05/01/09	\$ 953

6. For "Section C. Household Information" of form HUD-50059, there was one instance noted where a household member's birth date did not agree to the date reflected in the birth certificate. Details are as follows:

<u>Unit No.</u>	<u>Form HUD-50059 Effective Date</u>	<u>Household #</u>	<u>HAP Amount</u>
M10	07/01/09	3	\$ 915

7. For "Section C. Household Information" of form HUD-50059, the following instance was noted wherein the household member's name did not agree to the name reflected on the social security card:

<u>Unit No.</u>	<u>Form HUD-50059 Effective Date</u>	<u>Household #</u>	<u>Inconsistent Information</u>
K16	10/01/08	4	Last Name

8. The HAP payment per form HUD 52670 did not agree to form HUD-50059 and a reconciliation of the variance was not provided. No questioned cost results as the total HAP for this unit was already questioned in a previous finding.

<u>Unit No.</u>	<u>Period Tested</u>	<u>HAP Requested Per Form HUD 52670</u>	<u>HAP Per Form HUD 50059</u>	<u>Variance</u>
T12	06/01/09	\$ 984	\$ 907	\$ 77

Cause: The cause of the above condition is a lack of oversight by NMHC personnel when preparing form HUD-50059.

Effect: The effect of the above condition is noncompliance with program reporting requirements.



NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-13, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Reporting  
Questioned Costs: \$-0-

Recommendation: We recommend that program reporting requirements are adhered to. Further, we recommend that a signed final copy of the form HUD-50059 is on file.

Prior Year Status: The lack of oversight by NMHC personnel when preparing form HUD-50059 was reported as a finding in the Single Audit of CDA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure that program reporting requirements are adhered to. The HS will obtain a signed HUD 50059 with the appropriate signature and place the document in the tenant's file. Continuing efforts will be made to provide copies when found. However, a new 50059A (applies to Gross Rent Change and Move-Out Tenants) does not require the signature for other adult household members.

**Proposed Completion Date:** Immediately, FY 2010

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-14  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Reporting  
Questioned Costs: \$-0-

Criteria: All applicable federal reporting requirements must be adhered to.

Condition: The March 2009 compliance supplement for CFDA 14.182 provided for the following reporting requirements for the program:

1. HUD-52663, *Requisition for Partial Payment of Annual Contributions (OMB No. 2577-0169)*;
2. HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169)*; and
3. HUD-50058, *Family Report (OMB No. 2577-0083)*

The above reports were not prepared by NMHC during fiscal year 2009. NMHC believes that the above reports do not apply to the program. However, relevant documentation or correspondence supporting non-applicability of the above reporting requirements was not provided.

Cause: The cause of the above condition is the lack of awareness by NMHC of all reporting requirements of the program.

Effect: The effect of the above condition is noncompliance with federal reporting requirements.

Recommendation: We recommend NMHC identify all applicable federal reporting requirements and ensure that these are adhered to. Further, we recommend that relevant documentation supporting non-applicability of certain reporting requirements is obtained and maintained.

Prior Year Status: The lack of awareness by NMHC of all reporting requirements of the program was reported as a finding in the Single Audit of CDA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Roger A. Dris, Chief Accountant and Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will comply with all applicable federal reporting requirements and ensure that relevant documentation supporting non-applicability of certain reporting requirements are obtained and maintained accordingly.

1. HUD-52663 (Requisition for Partial Payment of Annual Contributions)
2. HUD-52681 (Voucher for Payment of Annual Contributions and Operating Statement)
3. HUD-50058 (Family Report)

**Proposed Completion Date:** Immediately, FY 2010

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-15  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Special Tests and Provisions  
 Questioned Costs: \$131,450

**Criteria:** In accordance with federal regulations, the initial renewal rent applicable to NMHC projects is determined at the lesser of (a) the annual adjusted rent potential of expiring contracts and (b) the section 8 contract rent potential from the budget-based rent determination.

**Condition:** The budgets reported by NMHC in the budget worksheet attached to the contract renewal request forms for the projects below are higher when compared to historical results of actual expenses from prior fiscal years and appear inconsistent with established budgets for the related fiscal year.

Project No.	NMHC's Certification Date	Budget Reported in the Contract Renewal Request Form	Per NMHC's Budget Schedule for Fiscal Year 2008	Average Actual Expenditures (from Fiscal Years 2006 thru 2008)	Total Rent Approved by Grantor	Excess of Approved Rent over Average Actual Expenses	Estimated Project Occupancy Rate during Fiscal Year 2009	Estimated Questioned Costs
TQ100011005	03/26/09	\$ 575,927	\$ 478,512	\$ 531,647	\$ 575,160	\$ 43,513	86.83%	\$ 37,780
TQ100016004	03/26/09	\$ 338,215	\$ 265,032	\$ 279,077	\$ 323,820	\$ 44,743	87.04%	38,940
TQ100006004	05/16/08	\$ 315,229	\$ 279,720	\$ 172,287	\$ 313,080	\$ 140,793	32.92%	46,350
TQ100011001	05/16/08	\$ 218,684	\$ 191,184	\$ 207,613	\$ 216,816	\$ 9,203	91.03%	8,380
								\$ 131,450

The estimated project occupancy rate during fiscal year 2009 represents the percentage of actual housing assistance payments (excluding utility reimbursements) in excess of total contract rent approved by the grantor.

**Cause:** The cause of the above condition is the lack of established policies and procedures in determining the reasonableness of reported budgets.

**Effect:** The effect of the above condition is the incorrect determination of contract rents and questioned costs of \$131,450.

**Recommendation:** We recommend that reported budgets are reviewed for reasonableness.

**Prior Year Status:** The lack of established policies and procedures in determining reasonableness of budgets reported was reported as a finding in the Single Audit of CDA for fiscal year 2008.

**Auditee Response and Corrective Action Plan:**

**Name of Contact Persons:** Roger Dris, Chief Accountant and Zerlyn A. Taimanao, Program and Housing Manager

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-15, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Special Tests and Provisions  
Questioned Costs: \$131,450

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:** NMHC will ensure that reported budgets are approved by the grantor on time by submitting the Operating Cost Adjustment Factor (OCAF) FORM 9624 and 9625, the Rent Schedule 92458, the Budget Worksheet 92547-A and the OCAF posted on Federal Register for the particular year. The auditor should follow the timing principle by using the same fiscal year for total rent approved by grantor and actual HAP claims received for the same fiscal year.

**Proposed Completion Date:** Immediately

Auditor Response: The issue is the need for NMHC to ensure that reported budgets are reasonable. As indicated in the criteria, rent is determined at the lesser of (a) the annual adjustment rent potential of expiring contract and (b) the Section 8 contract rent potential from the budget-based rent determination. The budget reported by NMHC supporting rent determination appears to be overstated as compared to budgets provided for examination and to actual program expense in prior years.

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-16  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Special Tests and Provisions  
 Questioned Costs: \$-0-

Criteria: The PHA or owner must provide housing that is decent, safe and sanitary. To achieve this end, the PHA must perform housing quality inspections at the time of initial occupancy and at least annually thereafter to assure that the units are decent, safe and sanitary. Owners must document these inspections, as well as actions taken to address deficiencies, if any, noted during inspections.

Condition: During tests of NMHC's compliance with housing quality standards requirement, the following were noted:

1. The completed unit inspection form, if any, evidencing unit inspections performed during fiscal year 2009 could not be located for the following thirty-three units.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Unit No.</u>	<u>Period Tested</u>
M01	12/01/08	M47	02/01/09
M03	06/01/09	K01	07/01/09
M04	11/01/08	K02B	03/01/09
M10	07/01/09	K04	03/01/09
M13	12/01/08	K08	06/01/09
M16	04/01/09	K11	01/01/09
M18	12/01/08	K13	11/01/08
M20	04/01/09	K16	10/01/08
M24	09/01/09	K20	06/01/09
M25	01/01/09	K22A	07/01/09
M27	04/01/09	R02	04/01/09
M29	08/01/09	R12	07/01/09
M32	10/01/08	R16	09/01/09
M34	11/01/08	R22	06/01/09
M38	04/01/09	R27	05/01/09
M40	04/01/09	R30	12/01/08
M44	08/01/09	R30	12/01/08

We are unable to determine if the required housing quality inspections were performed.

2. The housing quality inspections performed during fiscal year 2009 were not conducted within twelve months from the previous housing quality inspections for the following:

<u>Unit No.</u>	<u>HQS Inspections Performed During FY 2009</u>	<u>Prior HQS Inspection Date</u>
M06	12/08	11/07
M30	05/09	04/08
M36	03/09	08/06
M42	05/09	04/08
M45	02/09	01/08
K25	12/08	11/07

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-16, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
 Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
 Area: Special Tests and Provisions  
 Questioned Costs: \$-0-

### Condition, Continued:

3. The NMHC inspector reports for the following indicated deficiencies. However, relevant documentation indicating whether the deficiencies were addressed and/or whether needed repairs were timely completed could not be located in file:

<u>Unit No.</u>	<u>Date of HQS Inspection</u>	<u>Overall Inspection Results</u>
M06	12/08	Not indicated
M08	05/09	Inconclusive
M12	07/09	Inconclusive
M22	02/09	Inconclusive
M36	03/09	Pass
M45	02/09	Inconclusive
K25	12/08	Inconclusive
T02	02/09	Pass
T06	03/09	Pass
T08	02/09	Pass
T10	04/09	Pass
T12	10/08	Pass
T14	04/09	Pass
T16	01/09	Pass

4. The NMHC inspector report in file was not completely filled out or some sections were not completed, for the following:

<u>Unit No.</u>	<u>Date of HQS Inspection</u>	<u>Overall Inspection Results</u>
T04	04/09	Pass
T06	03/09	Pass
T10	04/09	Pass
T12	10/08	Pass
T17	06/09	Pass
T20	03/09	Pass

5. The NMHC inspector did not complete the overall inspection results/summary decision section of the report for the following tenant:

<u>Unit No.</u>	<u>Date of HQS Inspection</u>
M06	12/08

6. The NMHC inspector did not sign the report for the following tenant:

<u>Unit No.</u>	<u>Date of HQS Inspection</u>
M06	12/08

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-16, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to unit inspections.

Effect: The effect of the above condition is noncompliance with housing quality standards requirements.

Recommendation: We recommend adherence to existing policies and procedures relating to unit inspections. Additionally, we recommend that HQS procedures performed, as well as actions taken to address deficiencies noted during inspections, be documented in file.

Prior Year Status: The lack of adherence to established policies and procedures relating to unit inspections was reported as a finding in the Single Audit of CDA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Zerlyn A. Taimanao, Program and Housing Manager and Roger A. Dris, Chief Accountant

**Corrective Action:**

Condition 1 - NMHC will ensure that all forms pertaining to unit inspections are completed and filed.

Condition 2 - NMHC will ensure that inspections are performed within twelve months of the previous inspection.

Condition 3 - NMHC will ensure that inspections with deficiencies are addressed and completed in a timely manner.

Conditions 4, 5 and 6 - NMHC will ensure that reports pertaining to inspections are completed, signed and filed.

**Proposed Completion Date:** Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-17  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.182 Section 8 New Construction and Substantial Rehabilitation  
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004  
Federal Award Periods: 09/01/06 through 08/31/11, 08/01/08 through 07/31/09 and 08/01/09 through 07/31/10  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Criteria: In accordance with federal regulations, the PHA or owner must (a) establish or ensure tenant utility allowances based on utility consumption and rate data for various sized units, structure types, and fuel types, (b) make an annual review of tenant utility allowances to determine reasonableness, and (c) adjust the allowances, when appropriate.

Condition: NMHC performed a review of utility rates as of September 2008, however, the new utility schedule was only approved in June 2009 and implemented effective July 1, 2009. There was no evidence that a review of utility rates in fiscal year 2009 has been performed. Therefore, the required annual review of the utility allowance schedule was not evident in fiscal year 2009.

Cause: The cause of the above condition is lack of monitoring to ensure that the required annual review of the utility allowance schedule is performed.

Effect: The effect of the above condition is noncompliance with federal regulations. Since an updated utility schedule is not available, the amount of questioned costs, if any, that arise from the audit is not determinable.

Recommendation: We recommend NMHC implement monitoring procedures to perform the required annual review of the utility allowance schedule.

Prior Year Status: The lack of monitoring to ensure that the required annual review of the utility allowance schedule is being performed was reported as a finding in the Single Audit of CDA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** The utility allowance has not changed since April 1, 1990. The Housing Choice Voucher utility allowance changed in July 2009 and was implemented effective August 2009. NMHC will conduct an annual review of utility allowances to determine their reasonableness and such actions will be documented in the file if there is any indication of a ten percent change.

**Proposed Completion Date:** Ongoing



NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-18  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Areas  
Federal Award Nos.: B-07ST-69-0001 and B-08ST-69-0001  
Federal Award Period: 10/01/07 through 09/30/12  
Area: Davis-Bacon Act  
Questioned Costs: \$-0-

Criteria: As part of NMHC's control procedures over monitoring compliance with requirements of the Davis-Bacon Act, pre-construction conferences and interviews of contract workers at job sites are to be performed.

Condition: Tests of compliance with the Davis-Bacon Act noted the following:

1. Records of employee interviews to support job site interviews of contract employees, were not available for the following CDBG funded projects:

Contract Number

2008-007  
57695-OC  
2007-013  
2008-015  
2008-008  
2008-020  
2008-001  
2008-021A

2. For seven contracts related to CDBG funded projects, there was no evidence that a pre-construction conference was held, as follows:

Contract Number

57695-OC  
2007-013  
2008-008  
2008-020  
2008-001  
2008-021A  
2008-014-B

Cause: The cause of the above condition is the lack of established monitoring procedures to ensure that pre-construction conferences and job site interviews are performed and documented.

Effect: The effect of the above condition is potential noncompliance with NMHC's control procedures to ensure that requirements of the Davis-Bacon Act are complied with. No questioned costs result as payroll was paid within prevailing wage rates.

Recommendation: We recommend that NMHC establish monitoring controls to ensure that required procedures relating to job site interviews and pre-construction conferences are performed and documented.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-18, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.225 Community Development Block Grants/Special Purpose  
Grants/Insular Areas  
Federal Award Nos.: B-07ST-69-0001 and B-08ST-69-0001  
Federal Award Period: 10/01/07 through 09/30/12  
Area: Davis-Bacon Act  
Questioned Costs: \$-0-

Prior Year Status: The lack of established monitoring procedures to ensure that job site interviews are performed and documented was reported as a finding in the Single Audits of CDA for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Jocelyn S. Kaipat, Office Manager/Procurement Officer and Clemente S. Sablan, Technical Coordinator

**Corrective Action:**

1. Employee interviews at the job sites are completed and NMHC will ensure compliance with the requirements of the Davis-Bacon Act. The Office Manager will receive job interview sheets and coordinate with field staff accountable for interviewing and documenting worker interviews at CDBG-funded job sites. Interviews of workers for projects on Saipan will be coordinated between the Office Manager and the Technical Coordinator who will conduct all field site visits and inspections. Travel authorizations for off-island projects will not be approved until interviews with prior travels are submitted and filed by the Technical Coordinator with the Accounting Office.
2. NMHC will ensure that all pre-construction conference documents/evidence are provided in each project file.

**Proposed Completion Date:** Immediately/Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-19  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Areas  
Federal Award No.: B-07ST-69-0001  
Federal Award Period: 10/01/07 through 09/30/12  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Criteria: The Common Rule states that procedures for managing equipment, whether acquired in whole or in part with grant funds, will meet the following requirements:

1. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who hold title, the acquisition date, the cost of the property, percentage of Federal participation in the cost of the property, the location use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property;
2. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years;
3. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
4. Adequate maintenance procedures must be developed to keep the property in good condition; and
5. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Further, the grantee must establish and implement property management controls over the transfer of properties to subrecipients.

Condition: NMHC does not maintain a listing of equipment purchased using federal funds. Further, NMHC did not perform a physical count of equipment for the last two fiscal years. As fixed asset records are not effectively maintained and updated and a physical count has not been performed, NMHC has not effectively developed a means to ensure that equipment are adequately safeguarded from loss, damage, theft, or that investigations of such losses could reasonably occur. Total capital outlays or expenses, other than administrative expenses, incurred for the fiscal years ended September 30, 2009, 2008 and 2007 amounted to \$1,312,828, \$2,118,535 and \$387,412, respectively.

Cause: The cause of the above condition is the lack of adequate procedures to ensure property management controls are maintained and implemented.

Effect: The effect of the above condition is a lack of compliance with federal regulations.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-19, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.225 Community Development Block Grants/Special Purpose  
Grants/Insular Areas  
Federal Award No.: B-07ST-69-0001  
Federal Award Period: 10/01/07 through 09/30/12  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Recommendation: We recommend that NMHC ensure that equipment maintenance controls over fixed assets are effectively established and implemented. We further recommend that equipment listings are maintained and updated and adequate procedures for equipment maintenance and safeguards against loss, damage or theft of equipment are implemented.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Roger A. Dris, Chief Accountant

**Corrective Action:** NMHC will ensure that property maintenance controls over fixed assets are effectively established and implemented. We will perform fixed asset inventory counts every two years as a corrective action in the future.

**Proposed Completion Date:** Immediately

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-20  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Areas  
Federal Award No.: B-07ST-69-0001  
Federal Award Period: 10/01/07 through 09/30/12  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$204,830

Criteria: Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Further, brand names should not be indicated in the request of proposals or solicitations so as not to limit competition. Specifically, the CNMI's Procurement Regulations state the following:

- Price quotations should be obtained from at least three vendors for purchases between \$2,500 and \$9,999.99. Any price quotations obtained must be written, documented and submitted for approval. Bidding is not required for procurement under \$2,500.
- Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. The invitation for bids shall be publicized in order to increase competition and broaden industry participation. A bidding period of at least thirty days shall be provided unless a shorter period is determined to be reasonable and necessary, but shall never be less than fifteen days.
- For procurement methods that permit contracting without using full and open competition, a written justification memo should be prepared and submitted by the expenditure authority and approved by the Procurement and Supply Director.
- For change orders, the agency shall thoroughly assess whether or not it would be more prudent to seek competition before adding significant new work to existing contracts. Change orders on construction and A&E contracts, which exceed 25% of the cumulative contract price, shall automatically be procured through competitive procedures, except when the procurement of the additional work to be performed is authorized without using full and open competition.

Condition: Of \$1,528,092 of program expenses, twenty-nine items totaling \$1,447,431 were tested. Tests of expenses noted the following:

1. For eight expenses related to two contracts, copies of proposals from unselected vendors could not be provided; thus, we could not verify if the selected vendor was indeed the lowest bidder, as follows:

<u>Contract Number</u>	<u>GL Date</u>	<u>GL Amount</u>
57695-OC	02/05/09	\$ 44,664
57695-OC	02/20/09	3,493
57695-OC	03/05/09	12,018
2008-020	11/05/08	18,363

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-20, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Areas  
 Federal Award No.: B-07ST-69-0001  
 Federal Award Period: 10/01/07 through 09/30/12  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$204,830

### Condition, Continued:

<u>Contract Number</u>	<u>GL Date</u>	<u>GL Amount</u>
2008-020	11/18/08	4,932
2008-020	11/05/08	3,147
2008-020	11/18/08	16,578
2008-020	12/05/08	<u>4,780</u>
		<u>\$ 107,975</u>

- For four expenses related to one contract, we noted two change orders (CO #1 for \$61,239 and CO #3 for \$67,076) in which the amount of the change order exceeded 25 percent of the cumulative contract price. Although there was documentation of additional work to be performed, the justification documenting that the additional work could not be foreseen at the time the original contract was procured or that an emergency situation existed was not evident.

<u>Contract Number</u>	<u>GL Date</u>	<u>GL Amount</u>
2008-007	11/05/08	\$ 50,844
2008-007	10/06/08	28,553
2008-007	11/05/08	16,840
2008-007	03/02/09	<u>618</u>
		<u>\$ 96,855</u>

Cause: The causes of the above conditions are inadequate documentation of purchases and weak controls over ensuring that all procurement policies and procedures are implemented.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations and questioned costs of \$204,830.

Recommendation: We recommend that NMHC strengthen internal controls over procurement to maximize competition. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in the procurement file. We further recommend that NMHC strengthen procedures on procurement file maintenance.

Prior Year Status: The inadequate documentation of purchases and weak controls over ensuring that all procurement policies and procedures are implemented was reported as a finding in the Single Audit of CDA for fiscal year 2008.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-20, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.225 Community Development Block Grants/Special Purpose  
Grants/Insular Areas  
Federal Award No.: B-07ST-69-0001  
Federal Award Period: 10/01/07 through 09/30/12  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$204,830

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Jocelyn S. Kaipat, Office Manager/Procurement Officer and Zenie Mafnas, Grant Writer/Planner

**Corrective Action:**

- 1) \$107,975 - Requested Proposals from Unselected Vendors

NMHC will strengthen internal controls over procurement to maximize competition and strengthen procedures on procurement file maintenance.

- 2) \$96,855 - Documentation outlining unforeseen emergency situations was submitted by the Water Task Force Program Manager and resubmitted here. The Commonwealth Utilities Corporation requested for CO #1 the day after the Notice to Proceed was issued to bypass the connection so 1,027 customers would not be without water for five months. Supporting attachments were also previously submitted to the auditors along with the letter explaining such. Please see these for a comprehensive explanation. CO #3 was also necessitated by unforeseen circumstances and the funding utilized were CIP funds unrelated to NMHC.

**Proposed Completion Date:** Immediately/Ongoing

Auditor Response:

\$107,975 - As noted in condition #1 above, copies of requested proposals from unselected vendors were not provided for our examination.

\$96,855 - The documentation evidencing existence of an emergency situation to support the change orders was prepared only upon our request. Further, considering that major rehabilitation works will be done in the water reservoir, ensuring continuous water supply to possible affected customers should have been a foreseen circumstance upfront.

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-21  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Areas  
 Federal Award No.: B-07ST-69-0001  
 Federal Award Period: 10/01/07 through 09/30/12  
 Area: Subrecipient Monitoring  
 Questioned Costs: \$-0-

**Criteria:** Pursuant to 24 CFR section 570.503, before disbursing any CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall include provisions concerning: the statement of work, records and reports, program income and uniform administrative requirements under 24 CFR section 570.503. Further, pass-through entities must establish and implement subrecipient monitoring policies and procedures.

**Condition:** For one subrecipient tested, the subrecipient agreement, progress reports and documentation of site visits evidencing that subrecipient monitoring policies and procedures are implemented could not be provided. Further, NMHC did not perform physical counts of fixed assets with subrecipients in fiscal years 2008 and 2009. Details as follows:

<u>Contract Number</u>	<u>GL Date</u>	<u>GL Amount</u>
2008-020	11/05/08	\$ 18,363
2008-020	11/18/08	4,932
2008-020	11/05/08	3,147
2008-020	11/18/08	16,578
2008-020	12/05/08	<u>4,780</u>
	Total	47,800
Less amount already questioned at previous finding		<u>(47,800)</u>
	Questioned cost this finding	\$ <u>-</u>

**Cause:** The cause of the above condition is failure to implement established monitoring policies and procedures and lack of documentation of monitoring procedures performed.

**Effect:** The effect of the above condition is noncompliance with subrecipient monitoring requirements.

**Recommendation:** We recommend that NMHC implement established subrecipient monitoring policies and procedures. We further recommend that NMHC document monitoring procedures performed on subrecipients.

**Prior Year Status:** The failure to implement established monitoring policies and procedures and lack of documentation of monitoring procedures performed was reported as a finding in the Single Audit of CDA for fiscal year 2008.



NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-21, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.225 Community Development Block Grants/Special Purpose  
Grants/Insular Areas  
Federal Award No.: B-07ST-69-0001  
Federal Award Period: 10/01/07 through 09/30/12  
Area: Subrecipient Monitoring  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Zenie P. Mafnas, Grant Writer/Planner and Clemente Sablan, Technical Coordinator

**Corrective Action:** In the future, NMHC will ensure more stringent monitoring of subrecipients on a more frequent basis.

**Proposed Completion Date:** Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-22  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Areas  
Federal Award No.: B-07ST-69-0001  
Federal Award Period: 10/01/07 through 09/30/12  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Criteria: Pursuant to 24 CFR Section 570.506, when CDBG funds are used for rehabilitation, the grantee must assure that the work is properly completed.

Condition: For one rehabilitation project (contract # 2008-007) tested, the final inspection report and Certificate of Acceptance of Completed Structure and Contractor's Release, evidencing that the rehabilitation project has been completed, could not be provided. Details are as follows:

<u>Contract Number</u>	<u>GL Date</u>	<u>GL Amount</u>
2008-007	11/05/08	\$ 50,844
2008-007	10/06/08	28,553
2008-007	11/05/08	<u>16,840</u>
	Total	96,237
Less amount already questioned at previous finding		<u>(96,237)</u>
Questioned cost this finding		\$ <u>-</u>

Cause: The cause of the above condition is weak controls to ensure that rehabilitation projects are properly completed.

Effect: The effect of the above condition is noncompliance with the 24 CFR requirement.

Recommendation: We recommend that NMHC strengthen procedures to ensure that rehabilitation projects are properly completed.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Jocelyn S. Kaipat, Office Manager/Procurement Officer

**Corrective Action:** NMHC will ensure that rehabilitation projects are properly completed and all documents are properly filed in each designated project file.

**Proposed Completion Date:** Immediately/Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-23  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$8,494

**Criteria:** In accordance with 24 CFR Part 982.158 and 982 subpart K, the PHA must pay monthly HAP on behalf of the family that corresponds with the amount on line 12u of the HUD-50058, Family Report. This HAP amount must be reflected on the HAP contract and HAP register.

**Condition:** Of \$3,406,966 rental disbursements, seventy HAP rental disbursements totaling \$64,189 were tested. For seven HAP disbursements, the supporting HUD-50058 and HAP contract were not in file. Details are as follows:

<u>Period Tested</u>	<u>Household No.</u>	<u>HAP Amount</u>
10/02/08	H01232	\$ 1,100
12/02/08	H01232	1,100
01/02/09	H01069	1,100
04/01/09	H01186	690
01/02/09	HR0015A	750
08/01/09	H01066	566
03/12/09	HR0025	2,088
09/01/09	HR0009B	<u>1,100</u>
		<u>\$ 8,494</u>

**Cause:** The cause of the above condition is weak controls over ensuring that HUD 50058 and HAP contracts are completed, submitted and maintained in file.

**Effect:** The effect of the above condition is the misstatement of HAP payments and questioned costs of \$8,494. This matter is reportable as the projected questioned costs exceed \$10,000.

**Recommendation:** We recommend NMHC strengthen controls to ensure that HUD 50058 and HAP contracts are completed, submitted and maintained in file.

**Prior Year Status:** Weak controls to ensure that HUD 50058 and HAP contracts are completed, submitted and maintained in file was reported as a finding in the Single Audit of CDA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure that HUD 50058 and HAP contracts are completed, submitted and filed.

**Proposed Completion Date:** Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-24  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$43,442

Criteria: In accordance with OMB Circular A-87, Attachment B, Section 11.h (4), when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary report will be required where employees work on more than one Federal award or a Federal award and a non-Federal award.

Condition: Tests of administrative expenses totaling \$223,552 noted the following:

1. Office supplies expenses charged to the Section 8 Housing Choice Voucher Program, amounting to \$9,223, were estimated by a percentage of salaries charged to the program over the total NMHC salaries. No documentation evidencing grantor approval of this allocation could be provided.
2. Salary expense and retirement benefits charged to the Section 8 Housing Choice Voucher Program, of \$150,299 and \$42,442 for the fiscal year ended September 30, 2009, were allocated based on a quarterly hours worked certification, and supporting timesheets signed by employees, and approved by the employees' immediate supervisor. Salary expense and retirement benefits recorded in the general ledger are higher by \$20,049 and \$14,170, respectively, than the expected amounts based on quarterly allocation percentages.

Cause: The cause of the above condition is the lack of awareness of requirements of OMB Circular A-87, attachment B, Section 11.h (4).

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and questioned cost of \$43,442.

Recommendation: We recommend that approval from the grantor is obtained for all expenses allocated to the program. We further recommend that salaries and benefits charged to the program are based on approved quarterly hours worked certification.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Roger A. Dris, Chief Accountant

**Corrective Action:** NMHC has implemented the timesheet certification for quarterly calculations, which has been approved by the grantor.

**Proposed Completion Date:** Ongoing

Auditor Response: Documentation evidencing grantor's approval of the quarterly certification of actual hours worked and allocation percentage for other shared expenses was not provided.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-25  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Eligibility  
Questioned Costs: \$9,291

Criteria: The amount of federal assistance paid on behalf of a family is calculated using the family's annual income less allowable deductions. Owners must verify all deductions claimed by the tenant/applicant to determine level of federal assistance.

Condition: During examination of seventy tenant files, the following were noted:

- For seven tenants, deductions claimed included an allowance for dependent(s) which is (are) not biological or legal children of the household head/co-head. The household head/co-head are in a guardian/caretaker capacity based on either a general power of attorney, a notarized affidavit or an appointment of guardianship executed by the biological or legal parents of the dependent (s). We were unable to determine if NMHC performed further verification to ensure that such are valid dependents. Details are as follows:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	Dependents Claimed that are not Legal Children (Household Member Ref. #)	<u>Allowance Claimed</u>	<u>HAP Amount</u>
H01102	11/03/08	10/01/08	3	\$ 480	\$ 1,300
HO1159A	04/01/09	06/01/08	5	\$ 480	850
H01037A	06/01/09	11/01/08	3	\$ 480	900
HO1185	07/01/09	07/01/09	6	\$ 480	1,100
H01070	07/01/09	07/01/09	4, 5, 6, 7	\$ 1,920	1,200
H01062	08/01/09	06/01/09	2	\$ 480	941
HO1333	09/01/09	01/30/09	3	\$ 480	<u>1,200</u>
					<u>\$ 7,491</u>

- For one tenant, deductions claimed included an allowance for a full-time student; however, there was no third party verification noted in the file evidencing that the dependent was a full-time student. Details are as follows:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	Dependents Claimed that are not Legal Children (Household Member Ref. #)	<u>Allowance Claimed</u>	<u>HAP Amount</u>
H01155A	12/02/08	09/16/08	3, 4	\$ 960	\$ <u>1,300</u>

- For one tenant, there was no third party verification in file supporting a disability allowance as follows:

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-25, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Eligibility  
 Questioned Costs: \$9,291

### Condition, Continued:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	Dependents Claimed that are not Legal Children (Household Member Ref. #)	<u>Allowance Claimed</u>	<u>HAP Amount</u>
H01274	01/02/09	07/15/08	Head	\$ 400	\$ <u>500</u>

Cause: The cause of the above conditions is a lack of adequate policies and procedures to ensure that all claimed deductions are verified and documented.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$9,291.

Recommendation: We recommend that NMHC strengthen policies and procedures in verifying claimed deductions and that such verification be documented in the tenant file.

Prior Year Status: The lack of adequate policies and procedures to ensure that all claimed deductions are verified and documented was reported as a finding in the Single Audit of CDA for fiscal year 2008.

### Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure that the documents provided by the Superior Court will be accepted as appointment of guardianship and that all allowances and deductions are verified.

**Proposed Completion Date:** Immediately

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-26  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Eligibility  
 Questioned Costs: \$15,530

**Criteria:** Owners must use verification methods that are acceptable to HUD. The owner is responsible for determining if the verification documentation is adequate and credible. HUD accepts three methods of verification. These are, in order of acceptability, third-party verification, review of documents, and family certification. When third-party verification is not available, owners must document, in the file, efforts made to obtain the required verification and the reason if the verification was not obtained. The owner must include the following documents in the applicant's or tenant's file:

1. A written note to the file explaining why third-party verification is not possible; or
2. A copy of the date-stamped original request that was sent to the third party;
3. Written notes or documentation indicating follow-up efforts to reach the third party to obtain verification; and
4. A written note to the file indicating that the request has been outstanding without a response from the third party.

**Condition:** During examination of seventy tenant files, the following were noted:

1. For the following tenants that reported gross income, the third party verification documentation could not be located in file. Documentation indicating why third party verification was not available, or any documentation indicating efforts that were made to obtain third party verification, was not in file. Details are as follows:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Dependents Claimed that are not Legal Children (Household Member Ref. #)</u>	<u>Third Party Verification Documentation Not Found in Tenant File</u>	<u>HAP Amount</u>
HO1307	11/03/08	09/26/08	Head	Employment verification (w/ 6 pay stubs); Notice of disposition for food stamp benefits of \$499/mo.	\$ 1,214
HO1320	12/02/08	09/02/08	Head	Employment verification (w/ 6 pay stubs)	1,199
HO1025A	12/04/08	07/01/08	Head	Notice of disposition for food stamp benefits of \$698/mo.	1,200
HO1274	01/02/09	07/15/08	Head	Social security disability benefits of \$246/mo	500
HO1223	01/02/09	05/29/08	Head	Social security benefits for \$637/mo.	1,084
HO1128	02/02/09	04/01/08	Head	Employment verification (w/ 6 pay stubs)	1,300
HO1218	03/03/09	01/01/09	Head	Other income for \$100/mo.	750
HO1069	04/01/09	02/01/09	Head	Notice of disposition for food stamp benefits of \$348/mo.	1,100
HO1109A	04/01/09	10/08/08	Head	Other income for \$60/mo.	600
HO1069	06/01/09	02/01/09	Head	Notice of disposition for food stamp benefits of \$348/mo.	1,100
HO1117	08/01/09	06/01/09	Head	Employment verification (w/ only 2 pay stubs)	750
HO1297	08/01/09	07/01/09	Head, 2	Employment verification (w/ 6 pay stubs); NMI retirement benefits	392

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-26, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Eligibility  
Questioned Costs: \$15,530

Condition, Continued:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Dependents Claimed that are not Legal Children (Household Member Ref. #)</u>	<u>Third Party Verification Documentation Not Found in Tenant File</u>	<u>HAP Amount</u>
H01062	08/01/09	06/01/09	Head	Employment verification (w/ only 4 pay stubs); Notice of disposition for food stamp benefits of \$152/mo.	941
H01246	09/01/09	06/01/09	Head	Original copy of third party affidavit for other income	1,100
HO1333	09/01/09	01/30/09	Head	Other income for \$250/mo.	1,200
HO1171	09/01/09	07/01/09	Head	Other income for \$20/mo.	1,100
HR0028A	06/01/09	06/01/09	Head	Original copies of all third party documentation	750
Total					16,280
Less amount already questioned in previous finding					(4,591)
Questioned cost this finding					\$ <u>11,689</u>

2. For six tenants, there was a notarized affidavit as to assets declaring accounts with certain banks; however, there was no documentation on file evidencing that verification was requested from the bank.

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Dependents Claimed that are not Legal Children (Household Member Ref. #)</u>	<u>Third Party Verification Documentation Not Found in Tenant File</u>	<u>HAP Amount</u>
H01025A	12/04/08	07/01/08	Head	Two bank accounts	\$ 1,200
HO1193	01/02/09	08/08/08	Head, 2	One bank account	445
HO1100A	03/03/09	04/18/08	Head	One bank account	1,100
HO1333	09/01/09	01/30/09	2	One bank account	1,200
HO1114	05/05/09	05/01/09	2	One bank account	1,037
HO1171	09/01/09	07/01/09	Head	One bank account	1,100
Total					6,082
Less amount already questioned in previous finding					(3,500)
Questioned cost this finding					\$ <u>2,582</u>

3. For three tenants, the income reported in HUD Form 50058 did not agree with the third party verification, and there was no documentation on file supporting the variance. Details are as follows:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income Type</u>	<u>Income per HUD Form 50058</u>	<u>Income Per Third Party Verification</u>	<u>HAP Amount</u>
HO1307	11/03/08	09/26/08	Wages	\$ 12,333	\$ 13,703	\$ 1,214
HO1320	12/02/08	09/02/08	Food stamp	\$ 6,300	\$ 5,256	1,199
HO1297	08/01/09	07/01/09	Head, 2	\$ 7,949	\$ 7,605	392
H01029	09/01/09	09/01/09	Food stamp	\$ 1,596	\$ 1,812	<u>600</u>
					Total	3,405
					Less amount already questioned in previous finding	<u>(2,805)</u>
					Questioned cost this finding	\$ 600



# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-26, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Eligibility  
 Questioned Costs: \$15,530

### Condition, Continued:

4. For one tenant, the income reported in HUD Form 50058 did not agree with the third party verification:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income per HUD Form 50058</u>	<u>Income Per Third Party Verification</u>	<u>Variance in Income</u>	<u>Overstatement of Monthly HAP</u>	<u>HAP Amount</u>
HO1062	01/02/09	01/01/09	\$ 20,085	\$ 23,985	\$ 3,900	\$ 97	\$ <u>659</u>

Cause: The cause of the above condition is the lack of adequate policies and procedures to ensure that third party verifications are performed and documented for reported income and assets.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$15,530.

Recommendation: We recommend that NMHC strengthen policies and procedures in performing and documenting third party verifications on income and assets declared by tenants/applicants.

Prior Year Status: The lack of adequate policies and procedures to ensure that third party verifications are performed and documented for reported income and assets was reported as a finding in the Single Audit of CDA for fiscal year 2008.

### Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure that all required documentation is completed prior to completing re-certifications and that all reported income is verified and reconciled with verification.

**Proposed Completion Date:** Immediately

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-27  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Eligibility  
 Questioned Costs: \$8,142

Criteria: Owners must include verification documentation in file. Further, NMHC accepts the following notarized statement or signed affidavits from the tenant/applicant as support of income and assets for all adult members of the household.

1. Affidavit as to assets and verification of income from assets
2. Certification of asset disposition
3. Statement of unemployment
4. Affidavit of zero income of adult member
5. Affidavit of child support
6. Zero income in-kind contribution checklist

Condition: During examination of seventy tenant files, the following were noted:

1. For twenty-five tenants documents supporting income and assets for all adult members of the household could not be located in the tenant file. Specific documents that could not be located are as follows:

Household No.	Period Tested	Certification Effective	Dependents Claimed that are not Legal Children (Household Member Ref. #)	Documents Not Found in Tenant File	HAP Amount
HO1326	10/02/08	09/01/08	Head	Statement of unemployment, Affidavit of child support, Affidavit of zero income of adult member, Zero income in-kind contribution checklist, and Affidavit as to assets and Verification of income from Assets	\$ 750
HO1307	11/03/08	09/26/08	Head, 2, 3	Statement of unemployment and Affidavit of zero income #3, Affidavit as to assets and Verification of income from assets for the Head, member #2, and #3	1,214
HO1019A	12/02/08	03/01/08	Head	Zero income in-kind contribution checklist	750
HO1320	12/02/08	09/02/08	Head, 2, 3	Affidavit of assets and Verification of income from assets	1,199
HO1025A	12/04/08	07/01/08	Head, 2	Statement of unemployment for head, Affidavit of zero income for head and #2, Zero income in-kind contribution checklist, Affidavit of assets and Verification of income from assets #2	1,200
HO1274	01/02/09	07/15/08	Head	Statement of unemployment	500
HO1223	01/02/09	05/29/08	Head	Affidavit of zero income	1,084
HO1193	01/02/09	08/08/08	2	Statement of unemployment and affidavit of zero income	445
HO1100A	03/03/09	04/18/08	Head, 2	Affidavit of zero income, zero income in-kind checklist	1,100
HO1218	03/03/09	01/01/09	Head	Affidavit of zero income for head, zero income in-kind checklist	750

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-27, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Eligibility  
 Questioned Costs: \$8,142

### Condition, Continued:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Dependents Claimed that are not Legal Children (Household Member Ref. #)</u>	<u>Documents Not Found in Tenant File</u>	<u>HAP Amount</u>
HO1109A	04/01/09	10/08/08	Head	Statement of unemployment, Affidavit of child support, Affidavit of zero income, Zero income in-kind checklist, Affidavit of assets, Verification obtained for income from assets and certification of assets disposition	600
HO1287	05/01/09	12/03/08	Head	Statement of unemployment, Zero income in-kind checklist, Affidavit of assets notarized and verification of third party obtained for income from assets	1,100
HO1208	05/01/09	09/23/08	Head	Zero income in-kind checklist signed but not filled out	750
HO1159A	06/01/09	06/01/09	Head	Zero income in-kind checklist	850
HO1303	06/01/09	06/01/09	Head	Affidavit of zero income and Zero income in-kind checklist	1,100
HO1185	07/01/09	07/01/09	Head, 2	Zero income in-kind checklist signed but only partially completed, Affidavit of assets in file not notarized	1,100
HO1187	07/01/09	07/01/09	Head	Zero income in-kind checklist signed but not completely filled out	750
HO1063A	08/01/09	07/30/09	Head	Affidavit of zero income and Zero income in-kind checklist	1,100
HO1297	08/01/09	07/01/09	Head	Affidavit of zero income	392
HO1029	09/01/09	09/01/09	Head	Affidavit of zero income not signed by a witness, zero income in-kind checklist	600
HO1246	09/01/09	06/01/09	Head, 2	Affidavit of zero income, zero income in-kind checklist	1,100
HO1333	09/01/09	01/30/09	2	Statement of unemployment and affidavit of zero income	1,200
HO1171	09/01/09	07/01/09	Head	Zero income in-kind checklist	1,100
HR0028A	06/01/09	06/01/09	Head	Zero income checklist not in file	750
HO1114	05/05/09	05/01/09	Head	Certification of asset disposition	<u>1,037</u>
					Total 22,521
					Less amount already questioned in previous finding <u>(16,221)</u>
					Questioned cost this finding \$ <u>6,300</u>

2. For four tenants, an affidavit of child support could not be located in the tenant file.

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
HO1326	10/02/08	09/01/08	\$ 750
HO1326	02/02/09	09/01/08	750
HO1335	02/02/09	12/12/08	1,092
HO1109A	04/01/09	10/08/08	<u>600</u>
			Total 3,192
			Less amount already questioned in previous finding <u>(1,350)</u>
			Questioned cost this finding \$ <u>1,842</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-27, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Eligibility  
Questioned Costs: \$8,142

Cause: The cause of the above conditions is the lack of adequate policies and procedures to ensure documentation supporting income and assets are prepared and maintained in the tenant file.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$8,142.

Recommendation: We recommend that NMHC strengthen policies and procedures to ensure declared income and assets are supported and documented.

Prior Year Status: The lack of adequate policies and procedures to ensure documentation supporting income and assets are prepared and maintained in the tenant file was reported as a finding in the Single Audit of CDA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** The PHD was informed by HUD official, Darlene Kaholokua in March, 2009 that ALL HoH who are not employed or receiving income from benefits such as trusts, pensions, Social Security benefits, etc. must complete a Zero Income In-Kind Contribution Checklist. NMHC will ensure that the HS completes the Zero Income In-Kind Contribution Checklist. Follow-up and compliance will be reinforced by the PHD Manager. In addition, NMHC will ensure that documents such as the statement of unemployment, affidavit of child support, affidavit as to assets, and the verification of income from assets are documented and filed.

**Proposed Completion Date:** Immediately

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-28  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Eligibility  
 Questioned Costs: \$11,213

Criteria: Owners must conduct a certification/re-certification of family income and composition (a) prior to move-in; (b) at least annually; and (c) if there are changes in income, allowances or family characteristics reported between annual re-certifications. Owners must then recalculate the tenant rents and assistance payments, if applicable, based on information gathered.

A full "Application Form" must be submitted and signed by all adult members and NMHC for new admissions. NMHC uses a "Certification/Re-certification Interview Sheet" to document certifications and re-certifications performed. NMHC also uses a "Tenant Obligation to Report Interim Change" form to be signed by tenants. A HAP contract and lease agreement is signed by the tenant and NMHC.

Condition: During examination of seventy tenant files, the following were noted:

1. The HUD 50058, certification/re-certification interview sheet, verification documents supporting income, assets and allowances and other documents supporting eligibility for the following could not be located in file:

<u>Household No.</u>	<u>Period Tested</u>	<u>HAP Amount</u>
H01232	10/02/08	\$ 1,100
H01232	12/02/08	1,100
H01069	01/02/09	1,100
H01066	08/01/09	566
HR0015A	01/02/09	750
HR0025	03/12/09	2,088
HR0009B	09/01/09	<u>1,100</u>
		<u>\$ 7,804</u>

2. The HUD 50058 was on file, however, the certification/re-certification interview sheet, verification documents supporting income, assets and allowances and other documents supporting eligibility for the following could not be located in file:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
HO1309	10/02/08	09/15/08	\$ 1,073
HO1090	10/21/08	10/17/08	1,236
HO1303	02/02/09	08/18/08	1,100
HO1070	07/01/09	07/01/09	<u>1,200</u>
		Total	4,609
		Less amount already questioned in previous finding	<u>(1,200)</u>
		Questioned cost this finding	<u>\$ 3,409</u>

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-28, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Eligibility  
 Questioned Costs: \$11,213

### Condition, Continued:

3. For sixty-two tenants tested, the quality control worksheet was not signed by the Housing Manager or could not be located in file. Thus, there was no evidence of review of the eligibility determination or re-determination performed by the housing specialist prior to commencement of the housing assistance.
4. For the following ten tenants, the annual re-certification was not performed in a timely manner or there was no evidence that if it was performed within 12 months from the previous certification:

<u>Household No.</u>	<u>Period Tested</u>	<u>Previous Annual Certification</u>		<u>Current Annual Certification</u>	
		<u>Effective Date</u>	<u>Date Performed</u>	<u>Effective Date</u>	<u>Date Performed</u>
HO1057	03/03/09	02/01/08	12/12/07	02/01/09	12/29/08
H01069	04/01/09	Not in file	Not in file	02/01/09	12/22/08
H01186	04/01/09	06/01/07	Not in file	06/01/08	03/28/08
HO1114	05/05/09	05/01/08	03/10/08	05/01/09	05/04/09
HO1159A	06/01/09	06/01/08	05/08/08	06/01/09	05/26/09
H01069	06/01/09	Not in file	Not in file	02/01/09	12/22/08
H01037A	06/01/09	10/01/07	09/11/07	11/01/08	10/17/08
H01187	07/01/09	06/01/08	04/14/08	07/01/09	07/01/09
HO1117	08/01/09	06/01/08	Not in file	06/01/09	03/31/09
HR0014A	10/02/08	Not in file	Not in file	04/01/08	12/03/07

5. The re-certification interview sheets for the following were either (a) not completed; (b) incomplete; (c) not properly filled out; or (d) not properly signed:

<u>Household No.</u>	<u>Period Tested</u>	<u>Effective Date of Certification per</u>	<u>Sections of the Re-certification</u>
		<u>Certification/Re-certification Interview Sheet</u>	<u>Interview Sheet that are Incomplete/Not Completed or Other Deficiencies Noted</u>
H01155A	10/02/08	09/16/08	4, 5
H01006A	11/03/08	02/01/08	4, 5
H01190	11/03/08	06/01/08	Not in file
HO1019A	12/02/08	03/01/08	5
H01025A	12/04/08	07/01/08	4, 5
H01062	01/02/09	01/01/09	4, 5, 6
HO1128	02/02/09	04/01/08	4, 5
HO1002A	02/02/09	07/01/08	4
H01175	03/03/09	01/01/09	4, 5
H01218	03/03/09	01/01/09	4, 5
HO1159A	04/01/09	06/01/08	4
H01069	04/01/09	02/01/09	4
HO1109A	04/01/09	10/08/08	4, 5
HO1302	04/01/09	11/12/08	4, 5

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-28, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Eligibility  
 Questioned Costs: \$11,213

### Condition, Continued:

<u>Household No.</u>	<u>Period Tested</u>	<u>Effective Date of Certification per Certification/Re-certification Interview Sheet</u>	<u>Sections of the Re-certification Interview Sheet that are Incomplete/Not Completed or Other Deficiencies Noted</u>
HO1287	05/01/09	12/03/08	4, 5
HO1208	05/01/09	09/23/08	4, 5
HO1016	05/01/09	10/02/08	5
HO1114	05/05/09	05/01/09	4, 5
HO1159A	06/01/09	06/01/09	4, 5
HO1069	06/01/09	02/01/09	4
HO1034	06/01/09	06/01/09	4, 5, 6
HO1303	06/01/09	06/01/09	4, 5
HO1037A	06/01/09	11/01/08	4, 5
HO1185	07/01/09	07/01/09	4, 5
HO1289	07/01/09	07/01/09	4, 5, 6/Not signed by NMHC
HO1187	07/01/09	07/01/09	4, 5
HO1297	08/01/09	07/01/09	4, 5
HO1326	09/01/09	09/01/09	4, 5, 6/Not signed by NMHC
HO1029	09/01/09	09/01/09	1, 2, 3, 4, 5
HO1246	09/01/09	06/01/09	4, 5, 6
HO1171	09/01/09	07/01/09	4, 5
HR0028A	06/01/09	06/01/09	4, 5, 6/Not signed by NMHC

6. Some sections of the Application Form, certification interview sheet were either (a) not completed; (b) incomplete; (c) not properly filled out; (d) not in file; or (e) not signed by the tenant or NMHC:

<u>Household No.</u>	<u>Period Tested</u>	<u>Effective Date of Certification per Certification/ Re-certification Interview Sheet</u>	<u>Deficiencies Noted</u>
HO1326	10/02/08	09/01/08	Sections 4, 5 not completed
HO1090	10/21/08	10/17/08	Interview sheet not in file
HO1307	11/03/08	09/26/08	Application form not in file / Sections 4, 5 not completed
HO1274	01/02/09	07/15/08	Interview sheet not signed by Head / Section 3 not completed
HO1223	01/02/09	05/29/08	Section 5 not completed
HO1326	02/02/09	09/01/08	Sections 4, 5 not completed
HO1335	02/02/09	12/12/08	Interview sheet not signed by the tenant and NMHC / Sections 1, 2, 3, 4, 5, 6 not completed
HO1303	02/02/09	08/18/08	Application form not signed by member #2
HO1100A	03/03/09	04/18/08	Application form not completely filled out and not signed by member #2 / Section 5, 6 not completed
HO1351	03/03/09	02/02/09	Application form not signed by member #2 / Section 4 not completed
HO1333	09/01/09	01/30/09	Application form not completely filled out / Sections 4, 5, 6 not completely filled out

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-28, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Eligibility  
Questioned Costs: \$11,213

Condition, Continued:

7. The HUD 50058 was not signed by one or all of adult household members or signed after the effective date of certification/re-certification or the original copy was not in file for the following:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>HUD 50058 Not Signed By</u>	<u>HAP Amount</u>
H01155A	09/16/08	NMHC	\$ 1,300
H01006A	02/01/08	Head, 2, NMHC	\$ 763
H01190	06/01/08	Head, 2, NMHC	\$ 950
H01102	10/01/08	NMHC	\$ 1,300
HO1019A	03/01/08	Head, 2, NMHC	\$ 750
H01223	05/29/08	NMHC	\$ 1,084
H01100A	04/18/08	2	\$ 1,100
HO1159A	06/01/08	Head, 2, NMHC	\$ 850
H01186	06/01/08	Not in file	\$ 690
HO1302	11/12/08	2	\$ 1,300
H01303	06/01/09	NMHC	\$ 1,100
H01037A	11/01/08	NMHC	\$ 900
HO1185	07/01/09	Head, 2, NMHC	\$ 1,100
H01187	07/01/09	Head, NMHC	\$ 750
H01070	07/01/09	Head, NMHC	\$ 1,200
H01063A	07/30/09	Head	\$ 1,100
HO1117	06/01/09	Head	\$ 750
H01062	06/01/09	Original copy not in file	\$ 941
HO1326	09/01/09	NMHC	\$ 750
H01029	09/01/09	NMHC	\$ 600
HO1171	07/01/09	Head, 2, NMHC	\$ 1,100
HR0014A	04/01/08	NMHC	\$ 417
HR0028A	06/01/09	NMHC	\$ 750

8. The HAP contract and lease amendment agreement was not signed by one or all adult household members, or signed after the effective certification date or the original copy was not in file for the following:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Tenant Obligation to Report Interim Change</u>	<u>HAP Amount</u>
H01155A	09/16/08	Owner, NMHC	\$ 1,300
H01006A	02/01/08	Head, 2, Owner, NMHC	\$ 763
H01190	06/01/08	Head, 2, Owner, NMHC	\$ 950
HO1019A	03/01/08	Head, 2, Owner, NMHC	\$ 750
H01155A	09/16/08	Owner, NMHC	\$ 1,300
H01223	05/29/08	NMHC	\$ 1,084
H01100A	04/18/08	2	\$ 1,100
H01218	01/01/09	Owner	\$ 750
HO1159A	06/01/08	Head, 2, Owner, NMHC	\$ 850



# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-28, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Eligibility  
 Questioned Costs: \$11,213

### Condition, Continued:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Tenant Obligation to Report Interim Change</u>	<u>HAP Amount</u>
H01186	06/01/08	Not in file	\$ 690
HO1302	11/12/08	2, Owner	\$ 1,300
H01016	10/02/08	Owner	\$ 1,300
H01303	06/01/09	Owner, NMHC	\$ 1,100
H01037A	11/01/08	Owner, NMHC	\$ 900
HO1185	07/01/09	Head, 2, Owner, NMHC	\$ 1,100
H01187	07/01/09	Head, Owner, NMHC	\$ 750
H01070	07/01/09	Head, NMHC	\$ 1,200
H01063A	07/30/09	Head, Owner	\$ 1,100
HO1117	06/01/09	Head, Owner	\$ 750
H01062	06/01/09	Original copy not in file	\$ 941
HO1326	09/01/09	Owner, NMHC	\$ 750
H01029	09/01/09	NMHC	\$ 600
H01246	06/01/09	2	\$ 1,100
HO1171	07/01/09	Head, 2, Owner, NMHC	\$ 1,100
HR0014A	04/01/08	NMHC	\$ 417
HR0028A	06/01/09	Owner, NMHC	\$ 750

9. The tenants' obligation to report interim change form was not in file or was not signed by the head or co-head for the following:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Tenant Obligation to Report Interim Change</u>	<u>HAP Amount</u>
H01190	06/01/08	Not completed and signed	\$ 950
HO1335	12/12/08	Not in file	\$ 1,092
H01159A	06/01/08	Not signed by #2	\$ 850
H01016	10/02/08	Not in file	\$ 1,300

Cause: The cause of the above condition is lack of adequate monitoring procedures to ensure that required certification/re-certification and related forms are performed, reviewed, documented and filed in a timely manner.

Effect: The effect of the above conditions is noncompliance with program eligibility requirements and questioned costs of \$11,213, which was derived from conditions 1 and 2. For conditions 3 through 9, no questioned costs arise since documents were available but were not properly completed and/or signed.

Recommendation: We recommend that NMHC establish adequate monitoring procedures to ensure that required certification/re-certification and related forms are performed, reviewed, documented and filed in a timely manner.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-28, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Eligibility  
Questioned Costs: \$11,213

Prior Year Status: The lack of adequate monitoring procedures to ensure that required certification/re-certifications and related forms are performed, reviewed, documented and filed in a timely manner was reported as a finding in the Single Audit of CDA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:**

Conditions 1 and 2 - NMHC will ensure that the HUD 50058, the certification/re-certification interview sheet, verification documents supporting income, assets and allowances and other documents supporting eligibility are completed, signed and filed.

Condition 3 - NMHC will ensure that the quality control worksheet is completed, signed by the PHD Manager and filed.

Condition 4 - NMHC will ensure that annual re-certifications are performed in a timely manner and within twelve months from the previous certification.

Conditions 5 and 6 - NMHC will ensure that certification/re-certification interview sheets are completed, signed and filed.

Conditions 7 and 8 - NMHC will ensure that HAP contracts and lease agreements are signed on or prior to the effective certification date by all adult members of the household and filed.

Condition 9 - NMHC will ensure that all questions pertaining to income, assets and allowances will be answered as none if and when the question does not apply to the tenant. NMHC will ensure that the Tenant Obligation to Report Interim Change form is signed by the HoH and the spouse and then filed.

**Proposed Completion Date:** Immediately

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-29  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Eligibility  
 Questioned Costs: \$3,380

Criteria: To be eligible for Section 8 occupancy and housing assistance, applicants and tenants must meet the following requirements, among others:

1. Applicants must provide documentation of social security numbers (SSN) for family members at least 6 years of age and older. Adequate documentation includes a social security card issued by the Social Security Administration or other acceptable evidence of the SSN.
2. Only U.S. citizens or eligible noncitizens may receive assistance under Section 8 programs. All family members, regardless of age, must declare their citizenship or immigration status. Owners must obtain proof of citizenship. NMHC's policy is to require all family members to complete and sign a "Declaration of 214 Status" form and obtain copies of birth certificates or other acceptable evidence of citizenship and include such in file.

Condition: During examination of seventy tenant files, the following were noted:

1. The completed and signed "Declaration of Section 214 Status" form for the following household members either could not be located or was signed after the effective date of certification. No questioned costs result as the citizenship status was verified.

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Deficiencies Noted</u>	<u>HAP Amount</u>
HO1307	09/26/08	Not in file	\$ 1,214
H01025A	07/01/08	None for member #7	\$ 1,200
HO1274	07/15/08	Not in file	\$ 500
H01069	Not in file	None for member #3	\$ 1,100
H01062	01/01/09	None for members #4, 8	\$ 659
HO1002A	07/01/08	None for member #5	\$ 1,096
H01175	01/01/09	None for member #8	\$ 1,200
H01069	02/01/09	None for member #3	\$ 1,100
HO1109A	10/08/08	None for member #6	\$ 600
HO1289	07/01/09	Not in file	\$ 1,100
H01070	07/01/09	None for members #2, 4, 5, 6, 7	\$ 1,200
HO1117	06/01/09	Not in file	\$ 750
HO1297	07/01/09	None for member #2	\$ 392
H01062	06/01/09	None for member #7	\$ 941
HR0014A	04/01/08	Not in file	\$ 417
HR0028A	06/01/09	None for member #3	\$ 750

2. A birth certificate or other acceptable evidence of citizenship for one or more of the following household members could not be located:

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-29, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Eligibility  
Questioned Costs: \$3,380

Condition, Continued:

<u>Household No.</u>	Form HUD 50058 <u>Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
HO1307	09/26/08	All	\$ 1,214
H01025A	07/01/08	7	1,200
H01069	Not in file	3	1,100
H01069	02/01/09	3	1,100
HO1289	07/01/09	2	1,100
H01070	07/01/09	2, 3	1,200
HO1117	06/01/09	All	750
HO1297	07/01/09	2	392
HR0014A	04/01/08	2	<u>417</u>
		Total	8,473
		Less amount already questioned in previous finding	<u>(6,273)</u>
		Questioned cost this finding	\$ <u>2,200</u>

3. A copy of the social security card (or other acceptable evidence of the SSN) for the following household member(s) could not be located:

<u>Household No.</u>	Form HUD 50058 <u>Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
HO1090	10/17/08	6	\$ 1,236
H01006A	02/01/08	2	763
HO1307	09/26/08	All	1,214
HO1109A	10/08/08	2	600
H01070	07/01/09	2, 5	1,200
HO1117	06/01/09	All	750
HO1297	07/01/09	Head, 2	392
H01246	06/01/09	3	1,100
HR0014A	04/01/08	All	<u>417</u>
		Total	7,672
		Less amount already questioned in previous finding	<u>(6,492)</u>
		Questioned costs this finding	\$ <u>1,180</u>

Cause: The cause of the above conditions is the lack of adequate procedures to ensure tenant citizenship and social security numbers are verified, reconciled and maintained.

Effect: The effect of the above conditions is noncompliance with eligibility requirements and questioned costs of \$3,380.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-29, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Eligibility  
Questioned Costs: \$3,380

Recommendation: We recommend that NMHC strengthen procedures in the verification of tenant citizenship and social security numbers and improve file maintenance.

Prior Year Status: The lack of adequate procedures to ensure tenant citizenship and social security number are verified, reconciled and maintained was reported as a finding in the Single Audit of CDA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure that a signed Declaration of Section 214 Status form and verification of social security numbers and other proofs of citizenship are filed in a timely manner.

**Proposed Completion Date:** Immediately

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-30  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Eligibility  
 Questioned Costs: \$656

**Criteria:** Owners apply their occupancy standards before assigning the family to a unit. Owners should review family size and occupancy standards prior to completing required verifications so that if the property cannot accommodate the family, the owner may immediately inform the family of its ineligibility. Additionally, owners also compare family composition to occupancy standards when there is a change in family size. Owners should use the occupancy standards established for the property to determine whether the unit is still the appropriate size for the tenant.

**Condition:** During examination of seventy tenant files, the assigned units for the following did not appear reasonable based on the household size:

<u>Household Number</u>	<u>Period Tested</u>	<u>HUD 50058 Effective Date</u>	<u>No. of Household</u>	<u>Unit Size</u>	<u>HAP Amount</u>
H01057	03/03/09	02/01/09	1	2	\$ 656
H01187	07/01/09	07/01/09	1	2	<u>750</u>
				Total	1,406
				Less amount already questioned in previous finding	<u>(750)</u>
				Questioned cost this finding	\$ <u>656</u>

Justification for the larger unit size assigned was not noted in file.

**Cause:** The cause of the above condition is the lack of procedures to ensure adherence to occupancy standards.

**Effect:** The effect of the above condition is noncompliance with eligibility requirements and questioned cost of \$656.

**Recommendation:** We recommend that NMHC implement strict policies to adhere to occupancy standards. Any exceptions should be approved and documented in the tenant file.

**Prior Year Status:** The lack of procedures to ensure adherence to occupancy standards was reported as a finding in the Single Audit of CDA for fiscal year 2008.

### Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will review its policies on occupancy standards and implement strict procedures to ensure compliance. Any exceptions will be approved and documented in the tenant file.

**Proposed Completion Date:** FY 2010

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-31  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Eligibility  
 Questioned Costs: \$-0-

**Criteria:** Adult members of a family must sign consent forms as required verification documents, so the owner can verify sources of family income and family size. The owner must consider a family ineligible if adult members refuse to sign applicable consent and verification forms. Consent forms must be signed by:

1. The head of household (regardless of age);
2. The spouse or co-head of household (regardless of age); and
3. Any other family member who is 18 years old or older.

NMHC's uses the "Document Package for Applicant's/Tenant's Consent to the Release of Information" (the Document Package) form to document compliance with this requirement.

**Condition:** Of seventy tenant files tested, the Document Package form was either not in the tenant file, was not signed by one or more household adult members, or an original copy could not be located for the following:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Deficiencies Noted</u>
H01155A	10/02/08	09/16/08	\$ 1,300	Not in tenant file
H01190	11/03/08	06/01/08	\$ 950	Not filled out and not signed by all adult members
H01102	11/03/08	10/01/08	\$ 1,300	Not signed by household member #3
H01155A	12/02/08	09/16/08	\$ 1,300	Not in tenant file
H01062	01/02/09	01/01/09	\$ 659	Not in tenant file
HO1335	02/02/09	12/12/08	\$ 1,092	Not in tenant file
H01175	03/03/09	01/01/09	\$ 1,200	Not in tenant file
HO1057	03/03/09	02/01/09	\$ 656	Original copy not in file
HO1351	03/03/09	02/02/09	\$ 1,300	Not signed by household member #2
HO1159A	04/01/09	06/01/08	\$ 850	Not signed by household member #2, 3, 4
HO1302	04/01/09	11/12/08	\$ 1,300	Not in tenant file
H01016	05/01/09	10/02/08	\$ 1,300	Not in tenant file
H01037A	06/01/09	11/01/08	\$ 900	Not in tenant file
HO1289	07/01/09	07/01/09	\$ 1,100	Not signed by household member #4
HO1326	09/01/09	09/01/09	\$ 750	Not in tenant file

**Cause:** The cause of the above condition is the lack of policies and procedures to ensure that required consent forms are signed.

**Effect:** The effect of the above condition is noncompliance with eligibility requirements. No questioned costs arise as the participant was detained to be eligible.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-31, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Eligibility  
Questioned Costs: \$-0-

Recommendation: We recommend that NMHC strengthen and implement compliance with the above requirement.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure that the Document Package for Applicants/Tenants Consent to the Release of Information form is signed by all adult members of the household during re-examinations and are included in the tenant files.

**Proposed Completion Date:** FY 2010



# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-32  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$5,738

Criteria: Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Further, brand names should not be indicated in the request of proposals or solicitations so as not to limit competition. Specifically, the CNMI's Procurement Regulations state the following:

- Price quotations should be obtained from at least three vendors for purchases between \$2,500 and \$9,999.99. Any price quotations obtained must be written, documented and submitted for approval. Bidding is not required for procurement under \$2,500.
- Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. The invitation for bids shall be publicized in order to increase competition and broaden industry participation. A bidding period of at least thirty days shall be provided unless a shorter period is determined to be reasonable and necessary, but shall never be less than fifteen days.
- For procurement methods that permit contracting without using full and open competition, a written justification memo should be prepared and submitted by the expenditure authority and approved by the Procurement and Supply Director.
- For change orders, the agency shall thoroughly assess whether or not it would be more prudent to seek competition before adding significant new work to existing contracts. Change orders on construction and A&E contracts, which, exceed, 25% of the cumulative contract price, shall automatically be procured through competitive procedures, except when the procurement of the additional work to be performed is authorized without using full and open competition.

Condition: Our tests of two items totaling \$14,961, from a population of \$181,110, noted one \$5,738 item relating to the purchase of airline tickets that did not have documentation evidencing that competitive procurement procedures were utilized.

Cause: The cause of the above condition is inadequate control over ensuring competitive procurement is applied.

Effect: The effect of the above condition is noncompliance with federal regulations on federally funded travel and questioned cost of \$5,738. This matter was reported as the projected questioned costs exceed \$10,000.

Recommendation: We recommend NMHC strengthen controls to ensure competitive procurement is adhered to.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-32, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$5,738

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Jocelyn S. Kaipat, Office Manager/Procurement Officer

**Corrective Action:** \$5,738 - NMHC will ensure that solicitation from travel agencies will be performed as part of its procedures to obtain quotations for airfares and services to maximize competition. Copies of faxes and responses sent to travel agencies in 2008 were provided to the auditors.

**Proposed Completion Date:** Immediately/Ongoing

Auditor Response: Copies of price quotations supporting the specific purchases tested were not provided.

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-33  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Reporting  
 Questioned Costs: \$5,650

**Criteria:** In accordance with 24 CFR part 908 and 24 CFR section 982.158, the PHA is required to submit form HUD-50058, Family Report (OMB No. 2577-0083) electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.

**Condition:** Our tests of seventy items noted the following:

1. The supporting HUD-50058 covering the period tested were not in file for the following:

<u>Period Tested</u>	<u>Household No.</u>	<u>HAP Amount</u>
10/02/08	H01232	\$ 1,100
12/02/08	H01232	\$ 1,100
01/02/09	H01069	\$ 1,100
04/01/09	H01186	\$ 690
01/02/09	HR0015A	\$ 750
08/01/09	H01066	\$ 566
03/12/09	HR0025	\$ 2,088
09/01/09	HR0009B	\$ 1,100

2. There was no evidence that the related HUD-50058 for the period selected was submitted electronically. Details are as follows:

<u>Period Tested</u>	<u>Household No.</u>	<u>HAP Amount</u>
10/02/08	H01232	\$ 1,100
12/02/08	H01232	\$ 1,100
06/01/09	H01069	\$ 1,100
08/01/09	H01066	\$ 566
01/02/09	HR0015A	\$ 750
03/12/09	HR0025	\$ 2,088
09/01/09	HR0009B	\$ 1,100

3. For two items, the ticket number was provided, however, the electronic submission transaction list for the related ticket number could not be provided, as follows:

<u>Period Tested</u>	<u>Household No.</u>	<u>Certification Effective</u>
10/02/08	HR0014A	04/01/08
06/01/09	HR0028A	06/01/09

4. For two items, the certification effective for the related tenant was not listed on the electronic submission transaction list, as follows:

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-33, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Reporting  
 Questioned Costs: \$5,650

### Condition, Continued:

<u>Period Tested</u>	<u>Household No.</u>	<u>Certification Effective</u>
06/01/09	HO1303	06/01/09
08/01/09	HO1063A	07/01/09

5. For the "Household Information Section" of form HUD-50058, there were instances where the household members birth date did not agree to the birth date on the birth certificate, as follows:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
HO1155A	09/16/08	Head, 7	\$ 1,300
HO1309	09/15/08	Head	1,073
HO1090	10/17/08	Head, 2	1,236
HO1128	04/01/08	Head, 3	1,300
HO1100A	04/18/08	3	1,100
HO1333	01/30/09	Head, 2	1,200
HO1171	07/01/09	2	<u>1,100</u>
Total			8,309
Less amount already questioned in previous finding			<u>(7,009)</u>
Questioned costs this finding			\$ <u>1,300</u>

6. For the "Household Information Section" of form HUD-50058, there were instances where the household member's name did not agree to the name on the social security card or birth certificate. Details are as follows:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
HO1309	09/15/08	Head	\$ 1,073
HO1190	06/01/08	3	950
HO1102	10/01/08	Head, 4	1,300
HO1320	09/02/08	Head, 6	1,199
HO1025A	07/01/08	4, 5	1,200
HO1069	Not in file	Head, 2	1,100
HO1193	08/08/08	Head	445
HO1128	04/01/08	Head, 3, 5	1,300
HO1100A	04/18/08	3	1,100
HO1175	01/01/09	Head, 3, 5	1,200
HO1218	01/01/09	2, 3	750
HO1159A	06/01/08	2, 5	850
HO1069	02/01/09	Head	1,100

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-33, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Reporting  
Questioned Costs: \$5,650

Condition, Continued:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
HO1287	12/03/08	Head	1,100
HO1114	05/01/09	Head, 2	1,037
HO1159A	06/01/09	Head, 5	850
H01069	02/01/09	Head	1,100
H01034	06/01/09	Head, 3	1,100
H01037A	11/01/08	3	900
HO1289	07/01/09	Head	1,100
H01062	06/01/09	2	941
HO1333	01/30/09	Head, 2	1,200
HR0028A	06/01/09	Head	<u>750</u>
		Total	23,645
		Less amount already questioned in previous finding	<u>(19,295)</u>
		Questioned costs this finding	\$ <u>4,350</u>

Cause: The cause of the above condition is lack of adequate internal control procedures to determine timely submission of required reports.

Effect: The effect of the above condition is noncompliance with federal reporting requirements and questioned costs of \$5,650.

Recommendation: We recommend that NMHC take reasonable steps to comply with program reporting requirements.

Prior Year Status: The lack of adequate internal control procedures to determine timely submission of required reports was reported as a finding in the Single Audits of CDA for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:**

1. NMHC will ensure that the HUD 50058 is completed and filed.
2. NMHC will ensure that all HUD 50058 are submitted electronically.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-33, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Reporting  
Questioned Costs: \$5,650

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

3. NMHC will ensure that the electronic submission transactions list is available to support the related ticket number issued.
4. NMHC will ensure that the effective certifications for all tenants are listed on the electronic submission transaction list.
5. NMHC will ensure that the birth dates on the Household Information Section of the HUD 50058 coincide with the birth dates indicated on the birth certificates.
6. NMHC will ensure that the names listed on the Household Information Section of the HUD 50058 coincide with the names indicated on the birth certificates and social security cards.

**Proposed Completion Date:** Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-34  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$136,757

Criteria: In accordance with 24 CFR Part 982.204(a), except for special admissions, participants must be selected from the Public Housing Agency (PHA) waiting list. The PHA must select participants from the waiting list in accordance with admission policies in the PHA administrative plan.

Condition: For thirteen new admissions tested, we are unable to determine if the participant was selected from the waiting list as the waiting list as of the selection date could not be provided. Further, since waiting lists were not available, we could not verify if applicants at the top of the waiting lists were selected during fiscal year 2009.

<u>Household Number</u>	<u>Date Admitted to the Program</u>	<u>Questioned Cost</u>
HO1326	09/01/08	\$ 9,000
HO1309	09/15/08	8,773
HO1090	10/17/08	14,175
HO1307	09/26/08	14,729
HO1320	09/02/08	14,390
HO1274	07/15/08	6,000
HO1223	05/29/08	12,973
HO1326	09/01/08	-
HO1335	12/12/08	10,554
HO1303	08/18/08	13,200
HO1100A	04/18/08	13,200
HO1351	02/02/09	10,083
HO1333	01/30/09	9,680
		<u>\$ 136,757</u>

Cause: The cause of the above condition is lack of adherence to established policies and procedures to ensure that selection of participants is completely documented.

Effect: The effect of the above condition is noncompliance with waiting list requirements and questioned costs of \$136,757.

Recommendation: We recommend NMHC ensure that the selection of applicants from the waiting list are properly documented and maintained in the files.

Prior Year Status: The lack of strict adherence to established policies and procedures to ensure that the selection of participants is completely documented was reported as a finding in the Single Audits of CDA for fiscal years 2007 and 2008.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-34, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$136,757

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will ensure that adherence to established policies and procedures pertaining to the selection of applicants is thoroughly documented and filed. In addition, NMHC will ensure that the waiting list is always readily available.

**Proposed Completion Date:** Immediately



# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-35  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Special Tests and Provisions  
 Questioned Costs: \$-0-

**Criteria:** In accordance with 24 CFR Part 982.503(a)(1), the PHA must adopt a payment standard schedule that establishes voucher payment standard amounts for each fair market rent (FMR) area in the PHA jurisdiction. Under NMHC's Section 8 Administrative Plan for Rental Assistance Program Section 10.1, NMHC currently administers a payment standard that is at 90% of the published FMR set for Guam and the Pacific Islands. In addition, the PHA's administrative plan must state the method used by the PHA to determine that the rent to the owner is reasonable in comparison to rent for other comparable unassisted units. The PHA determination must consider unit attributes such as the location, quality, size, unit type, and age of the unit, and any amenities, housing services, maintenance and utilities provided by the owner.

**Condition:** Tests of the payment standard noted the following:

- For nine of seventy tenants tested with certification effective date within fiscal year 2009, the payment standard was calculated based on the published FMR schedule applicable to fiscal year 2008:

<u>Household Number</u>	<u>Certification Effective</u>	<u>Unit Size</u>	<u>Payment Standard Per HUD 50058</u>	<u>Should be Payment Standard</u>	<u>Variance</u>
H01102	10/01/08	4	\$ 1,521	\$ 1,589	\$ 68
H01062	01/01/09	3	\$ 1,272	\$ 1,328	\$ 56
H01109A	10/08/08	2	\$ 873	\$ 912	\$ 39
HO1302	11/12/08	5	\$ 1,521	\$ 1,589	\$ 68
HO1287	12/03/08	3	\$ 1,272	\$ 1,328	\$ 56
H01016	10/02/08	6	\$ 1,521	\$ 1,589	\$ 68
H01303	06/01/09	3	\$ 1,272	\$ 1,328	\$ 56
HO1185	07/01/09	3	\$ 1,272	\$ 1,328	\$ 56
HO1289	07/01/09	3	\$ 1,272	\$ 1,328	\$ 56

- For two of seventy tenants tested, the payment standard for an incorrect unit size was erroneously used:

<u>Household Number</u>	<u>Certification Effective</u>	<u>Unit Size</u>	<u>Payment Standard Per HUD 50058</u>	<u>Should be Payment Standard</u>	<u>Variance</u>
H01100A	04/18/08	4	\$ 1,272	\$ 1,521	\$ 249
H01171	07/01/09	4	\$ 1,328	\$ 1,589	\$ 261

- For one new admission, the conclusion certifying whether rent was reasonable or not was not completed on the form:

<u>Household Number</u>	<u>Certification Effective</u>	<u>Type of Action</u>	<u>Unit Size</u>
HO1274	07/15/08	New Admission	1

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-35, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Special Tests and Provisions  
 Questioned Costs: \$-0-

### Condition, Continued:

4. For nine tenants, there was no evidence that the rent reasonableness report was reviewed by the housing manager:

<u>Household Number</u>	<u>Certification Effective</u>	<u>Type of Action</u>	<u>Unit Size</u>
HO1090	10/17/08	New Admission	4
HO1320	09/02/08	New Admission	4
HO1274	07/15/08	New Admission	1
HO1223	05/29/08	New Admission	3
HO1335	12/12/08	New Admission	3
HO1100A	04/18/08	New Admission	4
HO1351	02/02/09	New Admission	4
HO1333	01/30/09	New Admission	4
HO1193	07/07/06	Interim - Unit Change	2

5. For one tenant, the rent reasonableness report was signed after the certification effective date:

<u>Household Number</u>	<u>Certification Effective</u>	<u>Type of Action</u>	<u>Unit Size</u>
HO1320	09/02/08	New Admission	4

6. For one tenant, the rent reasonableness determination was not performed prior to approving the lease contract:

<u>Household Number</u>	<u>Certification Effective</u>	<u>Type of Action</u>	<u>Unit Size</u>
HO1326	09/01/08	New Admission	2

Cause: The cause of the above condition is the lack of monitoring procedures to ensure that payment standard schedules are updated.

Effect: The effect of the above condition is the potential misstatement of payment standard amounts. However, no questioned cost was raised as the correct rate that should have been used to pay rent exceeded the utilized rate.

Recommendation: We recommend that payment standard schedules are updated to reflect current fair market rents published by HUD.

Prior Year Status: The lack of monitoring procedures to ensure that payment standard schedules are updated was reported as a finding in the Single Audits of CDA for fiscal years 2007 and 2008.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-35, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:**

Condition 1 - NMHC will ensure that payment standards are calculated based on the published FMR schedule applicable to the current fiscal year.

Condition 2 - NMHC will ensure that the payment standard coincides with the unit size.

Condition 3 - NMHC will ensure that whether rent is reasonable or not is indicated on the completed Rent Reasonable Determination Report form.

Condition 4 - NMHC will ensure that the rent reasonableness report is reviewed and initialed or signed by the PHD Manager.

Conditions 5 and 6 - NMHC will ensure that the rent reasonableness report is signed on or prior to the effective date and lease contract approval date.

**Proposed Completion Date:** Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-36  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Criteria: In accordance with 24 CFR Part 982.517 (c)(1), a PHA must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there has been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowances and any revisions made in its utility allowance schedule.

Condition: NMHC performed a review of utility rates as of September 2008; however, the new utility schedule was only approved in June 2009 and implemented effective July 1, 2009. There was no evidence that a review of utility rates in fiscal year 2009 has been performed. Therefore, the required annual review of the utility allowance schedule was not evident in fiscal year 2009.

Cause: The cause of the above condition is lack of strict monitoring to ensure performance of the required annual review of the utility allowance schedule.

Effect: The effect of the above condition is noncompliance with the provisions of 24 CFR Part 982.517(c)(1). Since updated utility schedules are not available, the amount of questioned costs is not determinable.

Recommendation: We recommend that NMHC implement monitoring procedures to ensure that the required annual review of the utility allowance schedule is being performed.

Prior Year Status: The lack of monitoring to ensure that the required annual review of the utility allowance schedule is performed was reported as a finding in the Single Audits of CDA for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zerlyn A. Taimanao, Program and Housing Manager

**Corrective Action:** NMHC will implement monitoring procedures to ensure that the required annual review of the utility allowance schedule is performed and followed through by the PHD Manager.

**Proposed Completion Date:** Ongoing

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-37  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Special Tests and Provisions  
 Questioned Costs: \$-0-

Criteria: Under 24 CFR Part 982.405(a), the Public Housing Agency (PHA) must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the Housing Quality Standards (HQS). Further, under 24 CFR Part 982.158(d), the PHA must prepare a unit inspection report.

Condition: Of seventy items tested for HQS inspections, the following were noted:

1. The housing quality inspections performed for the following were not conducted within twelve months from the previous housing quality inspections in the tenant file. Details are as follow:

<u>Household Number</u>	<u>Period Tested</u>	<u>HQS Inspections Performed During FY 2009</u>	<u>Prior HQS Inspection Date</u>
H01190	11/03/08	04/28/09	02/26/07
H01102	11/03/08	09/10/09	09/08/08
H01069	01/02/09	12/23/08	12/21/07
H01069	04/01/09	12/23/08	12/21/07
H01069	06/01/09	12/23/08	12/21/07
H01070	07/01/09	12/02/08	09/14/07
H01063A	08/01/09	04/29/09	04/29/08
HO1019A	12/02/08	01/27/09	10/16/07
H01034	06/01/09	03/25/09	08/29/06
H01029	09/01/09	08/13/09	08/15/08
HO1109A	04/01/09	07/07/09	07/11/08
H01037A	06/01/09	10/29/09	10/29/08
H01175	03/03/09	12/04/09	10/24/08
HO1326	10/02/08	08/05/09	08/06/08
HO1326	02/02/09	08/05/09	08/06/08
HO1326	09/01/09	08/05/09	08/06/08
H01066	08/01/09	12/02/08	01/20/02
HR0028A	06/01/09	05/29/09	03/25/08
H01025A	12/04/08	06/10/09	06/13/08
HO1297	08/01/09	08/25/09	08/08/08
HO1002A	02/02/09	06/10/09	06/10/08
H01208	05/01/09	07/13/09	07/07/08
HO1114	05/05/09	04/15/09	04/16/07
HO1185	07/01/09	08/13/09	08/13/08
HO1320	12/02/08	08/13/09	08/14/08
HO1206	07/02/09	04/15/09	05/26/06
H01114	07/31/09	04/15/09	04/16/07

2. The 2009 inspection report in file was not completely filled out or some sections were not completed and were not signed by the inspector for the following:

# NORTHERN MARIANAS HOUSING CORPORATION

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-37, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
 Federal Award No.: TQ901  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Special Tests and Provisions  
 Questioned Costs: \$-0-

### Condition, Continued:

Household Number	Period Tested	HQS Inspections Performed During FY 2009	Household Number	Period Tested	HQS Inspections Performed During FY 2009
H01218	03/03/09	12/03/08	HO1326	10/02/08	08/05/09
H01190	11/03/08	04/28/09	HO1326	02/02/09	08/05/09
H01102	11/03/08	09/10/09	HO1326	09/01/09	08/05/09
H01246	09/01/09	04/28/09	H01066	08/01/09	12/02/08
H01069	01/02/09	12/23/08	H01062	01/02/09	04/29/09
H01069	04/01/09	12/23/08	H01062	08/01/09	04/29/09
H01069	06/01/09	12/23/08	H01223	01/02/09	04/14/09
H01100A	03/03/09	03/09/09	HR0028A	06/01/09	05/29/09
HO1057	03/03/09	12/03/08	HO1128	02/02/09	03/12/09
H01070	07/01/09	12/02/08	H01187	07/01/09	04/30/09
HO1171	09/01/09	11/20/08	HO1333	09/01/09	01/28/09
H01063A	08/01/09	04/29/09	HO1287	05/01/09	06/08/09
H01155A	10/02/08	03/12/09	H01025A	12/04/08	06/10/09
H01155A	12/02/08	03/12/09	HO1297	08/01/09	08/25/09
HO1019A	12/02/08	01/27/09	HO1159A	04/01/09	04/30/09
H01034	06/01/09	03/25/09	HO1159A	06/01/09	04/30/09
HO1117	08/01/09	04/28/09	H01006A	11/03/08	12/03/08
H01029	09/01/09	08/13/09	HO1002A	02/02/09	06/10/09
H01232	10/02/08	04/14/09	H01208	05/01/09	07/13/09
H01232	12/02/08	04/14/09	HO1114	05/05/09	04/15/09
HO1274	01/02/09	06/10/09	HO1185	07/01/09	08/13/09
HO1335	02/02/09	11/17/09	HO1289	07/01/09	07/08/09
HO1109A	04/01/09	07/07/09	HO1307	11/03/08	08/26/09
H01037A	06/01/09	10/29/09	HO1320	12/02/08	08/13/09
HO1090	10/21/08	08/28/09	HO1023A	06/01/09	03/12/09
HO1351	03/03/09	02/02/09	H01288	07/31/09	06/09/09
H01016	05/01/09	04/30/09	HO1206	07/02/09	04/15/09
H01175	03/03/09	12/04/09	H01114	07/31/09	04/15/09
HO1309	10/02/08	08/24/09	H01186	04/01/09	04/29/09

- The completed unit inspection form evidencing unit inspections performed during fiscal year 2009 could not be located in the tenant file for ten items. We are unable to determine if the required housing quality inspections were performed. Details are as follow:

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-37, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Condition, Continued:

<u>Household Number</u>	<u>Period Tested</u>
HO1302	04/01/09
HR0015A	01/02/09
H01303	02/02/09
H01303	06/01/09
HR0009B	09/01/09
HR0014A	10/02/08
H01190A	05/01/09
H01190A	08/01/09
HO1193	01/02/09
HR0025	03/12/09

4. The NMHC inspector did not complete the overall inspection results/summary decision section of the inspection report for one tenant:

<u>Household Number</u>	<u>Period Tested</u>	HQS Inspections Performed <u>During FY 2009</u>
HO1019A	12/02/08	01/27/09

5. The inspection deficiency report was not signed by the Tenant/Owner, therefore, acknowledgment by the owner of deficiencies noted was not made for the following:

<u>Household Number</u>	<u>Period Tested</u>	HQS Inspections Performed <u>During FY 2009</u>
H01246	09/01/09	04/28/09
H01100A	03/03/09	03/09/09

6. One inspection report noted a failed conclusion, however, no deficiencies were noted in the checklist and no inspection deficiency report was attached in the checklist for proper acknowledgement of deficiencies:

<u>Household Number</u>	<u>Period Tested</u>	HQS Inspections Performed <u>During FY 2009</u>
H01102	11/03/08	09/10/09

7. One inspection report with deficiencies, had no inspection deficiency report evidencing acknowledgement by the tenant or owner:

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-37, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Condition, Continued:

<u>Household Number</u>	<u>Period Tested</u>	HQS Inspections Performed <u>During FY 2009</u>
H01057	03/03/09	12/03/08

8. The inspection reports for the following indicated deficiencies noted by the NMHC inspector; however, relevant documentation indicating whether the deficiencies had been addressed and/or whether the needed repairs were completed could not be located in file:

<u>Household Number</u>	<u>Period Tested</u>	HQS Inspections Performed <u>During FY 2009</u>
H01218	03/03/09	12/03/08
H01190	11/03/08	04/28/09
H01102	11/03/08	09/10/09
H01246	09/01/09	04/28/09
H01069	01/02/09	12/23/08
H01069	04/01/09	12/23/08
H01069	06/01/09	12/23/08
H01100A	03/03/09	03/09/09
HO1057	03/03/09	12/03/08
H01070	07/01/09	12/02/08
HO1171	09/01/09	11/20/08
H01063A	08/01/09	04/29/09
H01155A	10/02/08	03/12/09
H01155A	12/02/08	03/12/09
H01175	03/03/09	12/04/09
H01066	08/01/09	12/02/08
H01062	01/02/09	04/29/09
H01062	08/01/09	04/29/09
HO1002A	02/02/09	06/10/09
HO1320	12/02/08	08/13/09

9. For fourteen failed inspections, the Failed HQS Inspection Report for fiscal year 2009 could not be provided for the following:

<u>Household Number</u>	<u>Period Tested</u>	HQS Inspections Performed <u>During FY 2009</u>	<u>Conclusion</u>
H01218	03/03/09	12/03/08	Failed
H01190	11/03/08	04/28/09	Failed
H01102	11/03/08	09/10/09	Failed
H01246	09/01/09	04/28/09	Failed



NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-37, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Condition, Continued:

<u>Household Number</u>	<u>Period Tested</u>	HQS Inspections Performed <u>During FY 2009</u>	<u>Conclusion</u>
H01069	01/02/09	12/23/08	Failed
H01069	04/01/09	12/23/08	Failed
H01069	06/01/09	12/23/08	Failed
H01100A	03/03/09	03/09/09	Failed
HO1057	03/03/09	12/03/08	Failed
H01070	07/01/09	12/02/08	Failed
HO1171	09/01/09	11/20/08	Failed
H01063A	08/01/09	04/29/09	Failed
H01155A	10/02/08	03/12/09	Failed
H01155A	12/02/08	03/12/09	Failed

10. The previous inspection report could not be located, and we could not verify if the current inspection report was performed within twelve months:

<u>Household Number</u>	<u>Period Tested</u>	HQS Inspections Performed <u>During FY 2009</u>
H01246	09/01/09	04/28/09

11. For one tenant, the fiscal year 2009 inspection report did not indicate the party responsible for the deficiencies:

<u>Household Number</u>	<u>Period Tested</u>	HQS Inspections Performed <u>During FY 2009</u>
H01062	01/02/09	04/29/09
H01062	08/01/09	04/29/09

Cause: The cause of the above condition is the lack of systematic filing of HQS inspection reports and the lack of monitoring to ensure that all HQS inspections are timely performed.

Effect: The effect of the above condition is possible noncompliance with the HQS inspection requirement.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-37, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Recommendation: We recommend that all HQS inspections are supported with HQS inspection reports and are at least performed annually. Additionally, we recommend that all HQS inspection reports are maintained in participant files.

Prior Year Status: The lack of systematic filing of HQS inspection reports and the lack of monitoring to ensure that all HQS inspections are performed on a timely manner was reported as a finding in the Single Audits of CDA for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Zerlyn A. Taimanao, Program and Housing Manager, Herman Lieto, Housing Preservation Technician and Mitch Aaron, Housing Inspector

**Corrective Action:**

Condition 1 - NMHC will ensure that HQS inspections are performed within twelve months of the previous inspection date.

Condition 2 - NMHC will ensure that inspection reports are completed, signed by the inspector and filed.

Conditions 3, 9 and 10 - NMHC will ensure that reports pertaining to unit inspections are filed.

Condition 4 - NMHC will ensure that the inspector completes the inspection results/summary decision section of the report and that the report is filed.

Condition 5 - NMHC will ensure that completed inspection reports are signed by the tenant/owner and filed.

Condition 6 - NMHC will ensure that when a unit fails an inspection, the result coincides with the checklist attached to the report.

Condition 7 - NMHC will ensure that inspection/deficiency reports are acknowledged by the tenant or the owner.

Condition 8 - NMHC will ensure that during an inspection when a unit is claimed to have deficiencies, a follow-up inspection will be conducted to determine whether the deficiencies have been addressed.

Condition 11 - NMHC will ensure that the inspector indicates on the inspection/deficiency report whether the deficiency was caused by the tenant/owner.

**Proposed Completion Date:** Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-38  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Criteria: As provided under 24 CFR Part 982.404, for units under Housing Assistance Payment (HAP) contract that fail to meet Housing Quality Standards (HQS), the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. A re-inspection must be conducted for all inspections with HQS deficiencies. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract.

Condition: Of eleven failed inspections tested, the following were noted:

1. For four tenants, there was no inspection deficiency report or any equivalent written documentation evidencing that NMHC notified the owner or tenant of the unit requiring correction of any cited life threatening HQS deficiencies within 24 hours of the inspection and of all other HQS deficiencies within 30 calendar days of the inspection or within a specified extension approved by NMHC.

<u>Household Number</u>	<u>Inspection Date</u>
H01190	04/28/09
H01102	9/10/09
H01070	12/02/08
H01063A	04/29/09

2. For one tenant, deficiencies were noted as corrected 45 days after the inspection date; however, the related approval memo or equivalent documentation evidencing that the correction period has been extended to more than 30 days was not evident.

<u>Household Number</u>	<u>Inspection Date</u>
H01069	12/23/08

3. No re-inspection checklist or a work order report could be located in the tenant's file evidencing that necessary repairs were performed.

<u>Participant's Name</u>	<u>Inspection Date</u>
H01218	12/03/08
H01246	04/28/09
H01100A	03/09/09
HO1057	12/03/08
HO1171	11/20/08
H01155A	03/12/09

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-38, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.871 Section 8 Housing Choice Vouchers  
Federal Award No.: TQ901  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Cause: The cause of the above condition is the lack of documentation of the results of re-inspections performed and the lack of monitoring to ensure that deficiencies are timely addressed.

Effect: The effect of the above condition is noncompliance with the HQS enforcement requirement.

Recommendation: We recommend that results of HQS enforcements are documented in the deficiency reports and re-inspections are timely performed.

Prior Year Status: The lack of proper documentation of the results of re-inspections performed and the lack of monitoring to ensure that deficiencies are timely addressed was reported as a finding in the Single Audits of CDA for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Zerlyn A. Taimanao, Program and Housing Manager, Herman Lieto, Housing Preservation Technician and Mitch Aaron, Housing Inspector

**Corrective Action:** NMHC will ensure that the results of HQS enforcements are properly documented in the deficiency reports and re-inspections are performed in a timely manner. The PHD Manager will monitor to ensure compliance to the inspection requirements and that inspections are performed at least annually.

**Proposed Completion Date:** Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-39  
CFDA No.: Nonmajor Programs  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Criteria: HOME loans extended to eligible participants should be monitored and accounted for.

Condition: Beginning in fiscal year 2006, NMHC has recorded receivables for HOME loans under a deferment agreement. Prior to fiscal year 2006, NMHC had not recorded receivables for loans under a deferment agreement. At September 30, 2009, NMHC is in the process of determining the cumulative amount of loans under the deferment agreement prior to fiscal year 2006.

Cause: The cause of the above condition is that NMHC understood that loans under deferment agreements should not be recorded since repayment of these deferred loans is not expected.

Effect: The effect of the above condition is that loans under deferment agreements may not be properly accounted for or presented in the financial reports.

Recommendation: We recommend NMHC determine with the grantor agency whether NMHC should record deferred HOME loans under a deferment agreement.

Prior Year Status: Lack of monitoring of loans under deferment agreement was reported as a finding in the Single Audit of CDA for fiscal years 2006 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Jesse S. Palacios, Manager, Mortgage & Credit Division and Roger A. Dris, Chief Accountant

**Corrective Action:** NMHC will take reasonable steps to record deferred HOME loan receivables and monitor HOME loans under a deferment agreement by recording all deferred home loan receivables every end of the month and that the loan accountant will reconcile with the loan specialist.

**Proposed Completion Date:** Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-40  
CFDA No.: Nonmajor Programs  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Criteria: Under NMHC's policies and procedures for Homeowner Rehabilitation, HOME loan applicants that have been determined eligible for financial assistance and have proven a lack of financial resources for repayment of their direct loan may have their monthly loan payments deferred for a period of up to fifteen years. Further, borrowers with a deferment agreement shall be required to be annually re-certified as eligible to continue receiving a deferment during any potential deferment period.

Condition: NMHC did not perform the required annual re-certification for borrowers with deferment agreements.

Cause: The cause of the above condition is an oversight by NMHC management in ensuring compliance with established policies and procedures for Homeowner Rehabilitation.

Effect: The effect of the above condition is noncompliance with established policies and procedures for Homeowner Rehabilitation.

Recommendation: We recommend NMHC management ensure that the annual re-certification of borrowers with deferment agreements is performed.

Prior Year Status: Failure to perform annual re-certifications of borrowers with deferment agreements was reported as a finding in the Single Audits of CDA for fiscal years 2006 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Jesse S. Palacios, Manager, Mortgage & Credit Division

**Corrective Action:** The Mortgage & Credit Division will place all deferred loan clients on a separate ledger to ensure effective annual re-certification and monitoring. The ledger will include the name of the client, address, contact number(s), effective date of the deferred loan agreement, amount of the deferment and the re-certification compliance date. A separate report will then be shared with the Fiscal Division upon completion of the re-certification process.

**Proposed Completion Date:** Ongoing

## NORTHERN MARIANAS HOUSING CORPORATION

### Unresolved Prior Year Findings and Questioned Costs Year Ended September 30, 2009

#### Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2009:

Questioned costs as previously reported	\$ 553,925
Questioned costs of fiscal year 2009 Single Audit	<u>625,176</u>
Unresolved questioned costs at September 30, 2009	\$ <u>1,179,101</u>

#### Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 9 through 100).



# NORTHERN MARIANAS HOUSING CORPORATION

P.O. BOX 500514, Saipan, MP 96950-0514

Tels: (670) 234-6866  
234-9447  
234-7689  
234-7670  
Fax: (670) 234-9021

## Summary of Schedule of Prior Audit Findings

Status of audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2008:

### **FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

- Finding No. 2008-3 - Not corrected. See corrective action plan to Finding No. 2009-1.
- Finding No. 2008-4 - Not corrected. See corrective action plan to Finding No. 2009-2.
- Finding No. 2008-5 - Not corrected. See corrective action plan to Finding No. 2009-3.

### **FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

- Finding No. 2008-6 - Not corrected. See corrective action plan to Finding No. 2009-23.
- Finding No. 2008-7 - Not corrected. See corrective action plan to Finding No. 2009-11.
- Finding No. 2008-8 - Corrective action was taken.
- Finding No. 2008-9 - Corrective action was taken.
- Finding No. 2008-10 - Not corrected. See corrective action plan to Finding No. 2009-20.
- Finding No. 2008-11 - Not corrected. See corrective action plan to Finding No. 2009-21.
- Finding No. 2008-12 - Not corrected. See corrective action plan to Finding No. 2009-15.
- Finding No. 2008-13 - Not corrected. See corrective action plan to Finding No. 2009-34.
- Finding No. 2008-14 - Corrective action was taken.
- Finding No. 2008-15 - Corrective action was taken.
- Finding No. 2008-16 - Corrective action was taken.
- Finding No. 2008-17 - Not corrected. See corrective action plan to Finding No. 2009-18.
- Finding No. 2008-18 - Not corrected. See corrective action plan to Finding No. 2009-4.
- Finding No. 2008-19 - Not corrected. See corrective action plan to Finding No. 2009-5.

**"NMHC is an equal employment and fair housing public agency"**



**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT, CONTINUED**

Finding No. 2008-20 - Not corrected. See corrective action plan to Finding No. 2009-6.

Finding No. 2008-21 - Not corrected. See corrective action plan to Finding No. 2009-7.

Finding No. 2008-22 - Not corrected. See corrective action plan to Finding No. 2009-8.

Finding No. 2008-23 - Not corrected. See corrective action plan to Finding No. 2009-9.

Finding No. 2008-24 - Not corrected. See corrective action plan to Finding No. 2009-10.

Finding No. 2008-25 - Not corrected. See corrective action plan to Finding No. 2009-25.

Finding No. 2008-26 - Not corrected. See corrective action plan to Finding No. 2009-26.

Finding No. 2008-27 - Not corrected. See corrective action plan to Finding No. 2009-27.

Finding No. 2008-28 - Not corrected. See corrective action plan to Finding No. 2009-28.

Finding No. 2008-29 - Not corrected. See corrective action plan to Finding No. 2009-29.

Finding No. 2008-30 - Not corrected. See corrective action plan to Finding No. 2009-30.

Finding No. 2008-31 - Not corrected. See corrective action plan to Finding No. 2009-12.

Finding No. 2008-32 - Not corrected. See corrective action plan to Finding No. 2009-13.

Finding No. 2008-33 - Not corrected. See corrective action plan to Finding No. 2009-14.

Finding No. 2008-34 - Not corrected. See corrective action plan to Finding No. 2009-33.

Finding No. 2008-35 - Corrective action was taken.

Finding No. 2008-36 - Not corrected. See corrective action plan to Finding No. 2009-16.

Finding No. 2008-37 - Not corrected. See corrective action plan to Finding No. 2009-17.

Finding No. 2008-38 - Not corrected. See corrective action plan to Finding No. 2009-35.

Finding No. 2008-39 - Not corrected. See corrective action plan to Finding No. 2009-37.

Finding No. 2008-40 - Not corrected. See corrective action plan to Finding No. 2009-38.

Finding No. 2008-41 - Not corrected. See corrective action plan to Finding No. 2009-36.

Finding No. 2008-42 - Not corrected. See corrective action plan to Finding No. 2009-39.

Finding No. 2008-43 - Not corrected. See corrective action plan to Finding No. 2009-40.